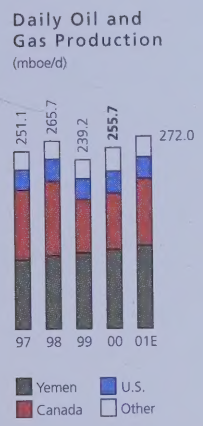
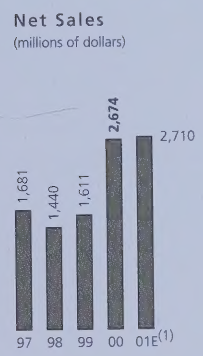
> Energy to Outperform Nexen Inc. Annual Report 2000

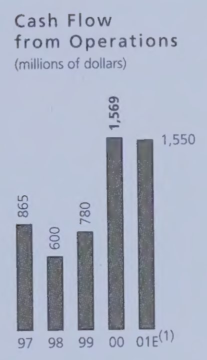
Canada United States Brazil Yemen Colombia Indonesia Australia Nigeria

> **NEXEN INC. IS A DYNAMIC AND INNOVATIVE OIL AND GAS COMPANY WITH OPERATIONS WORLDWIDE.** Our core oil and gas activities include exploration, development, production and marketing of crude oil and natural gas. Core operations, combined with high-potential exploration activities, are the cornerstones of our growth strategy. We are also a global producer of sodium chlorate which is used as a bleaching agent by the pulp and paper industry.

OUTSTANDING ASSETS, A GREAT BUSINESS STRATEGY AND 2,000 TALENTED EMPLOYEES TRULY GIVE NEXEN THE ENERGY TO OUTPERFORM.







		2000	1999	1998
Financial (amounts in millions except per share data)	> Net Sales	$ 2,674	$ 1,611	$ 1,440
	Cash Flow from Operations	$ 1,569	$ 780	$ 600
	Per Common Share (2)	$ 12.01	$ 5.19	$ 4.34
	Net Income (Loss)	$ 602	$ 100	$ (110)
	Per Common Share (2)	$ 4.52	$ 0.46	$ (0.83)
	Capital Expenditures	$ 915	$ 612	$ 950
	Acquisitions	$ 39	$ 91	$ –
	Dispositions	$ 42	$ 85	$ 533
	Net Debt (3)	$ 1,344	$ 1,308	$ 1,693
	Common Shares Outstanding	119.9	138.1	137.4
Operations	> Daily Production			
	Oil and Natural Gas Liquids (mbbls)	195.3	176.8	180.4
	Synthetic Crude Oil (mbbls)	14.7	16.1	15.2
	Natural Gas (mmcf)	274	278	420
	Total Daily Production (mboe) (4)	255.7	239.2	265.7
	Finding and Development Costs – Annual (per boe)	$ 6.31	$ 4.00	$ 5.05
	Reserve Replacement Ratio (per cent)	140	151	116
	Sodium Chlorate Production (thousand short tons)	462	404	399
Oil and Gas Cash Netback (5) (dollars per boe)	> Core Producing Assets			
	Yemen	$ 11.67	$ 8.12	$ 7.39
	Canada	$ 19.05	$ 9.93	$ 5.67
	United States – Gulf of Mexico	$ 29.73	$ 13.94	$ 11.70
	Syncrude Joint Venture	$ 18.73	$ 15.05	$ 7.17
	Company-Wide Oil and Gas	$ 17.82	$ 10.06	$ 7.50

Notes:

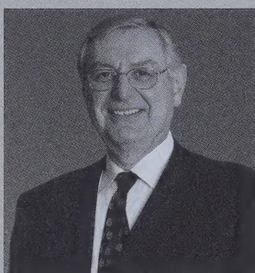
(1) 2001 estimates assume WTI oil price of U.S. $25 per barrel and NYMEX gas price of U.S. $4.25 per mcf for the remainder of the year.

(2) Per share data is reported after dividends on preferred securities.

(3) Defined as long-term debt less working capital.

(4) Natural gas is converted at 6 mcf per equivalent barrel of oil.

(5) Cash netback is defined as the average sales price received less royalties and operating costs and in-country taxes in Yemen. Calculation details can be found in the Statistical Supplement on our Web site. Please visit www.nexeninc.com under "Investor Relations".



> **"WE BELIEVE THAT NEXEN IS A DIFFERENT KIND OF ENERGY COMPANY.** We have grown primarily through exploration rather than acquisitions. We have built a rich opportunity inventory during downturns in the business cycle. We believe growing profits is as important as growing production, and investing in people and communities is as important as investing in technology. In short, Nexen is sustainable because it is both an economic success and a responsible global citizen."

Victor J. Zaleschuk
President and Chief Executive Officer

Defining Our Future

> The year 2000 was an incredible year for Nexen, with a series of events that defined our Company and our future. We achieved our independence, changed our name, delivered record results and drilled new discoveries that are building sustainable value growth for the long term.

We began the year with a major victory. In April 2000, with overwhelming support from our shareholders, we successfully negotiated separation from our largest shareholder, Occidental Petroleum Corporation, ending a 30-year relationship. To reflect our independence, we launched our new name – Nexen Inc. "Nexen" is derived from the words "new", "exploration" and "energy", which encompass key elements of our long-term strategy.

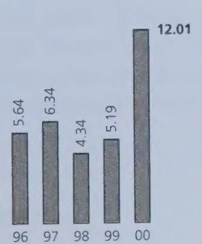
We also took measures to improve the liquidity and valuation of our shares. We listed Nexen's common shares on the New York Stock Exchange, under the symbol "NXY", to enhance our exposure to U.S. markets. We repurchased 15 per cent or 20 million shares for $29.51 per share, as part of our separation from Occidental, resulting in fewer shares outstanding than 20 years ago. On The Toronto Stock Exchange, our shares traded at a low of $26.40 prior to the repurchase, a record high of $45.20 later in the year, and closed 2000 at $37.00.

Record 2000 Results

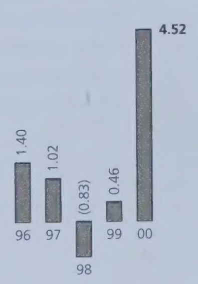
> With strong commodity prices, growing production, and an attractive cost structure, Nexen achieved record earnings and cash flow in 2000. Our earnings reached $602 million ($4.52 per share), a 500 per cent improvement from 1999. Cash flow from operations doubled to $1.6 billion ($12.01 per share), allowing us to fund a billion-dollar capital program and the $600 million share repurchase from Occidental and keep our net debt consistent year-over-year.

We grew our production by seven per cent in 2000, averaging 256,000 equivalent barrels ("boe") per day. Our growth accelerated as the year progressed and we exited the year at 263,000 boe per day. We had excellent results from our drilling program, replacing 140 per cent of production at a cost of $6.04 per boe, including acquisitions and dispositions. This extends our track record of top quartile reserve performance, where over the past three years we have replaced 135 per cent of production annually at a cost of just $4.44 per boe.

Cash Flow per Common Share
(dollars)



Net Income (Loss) per Common Share
(dollars)



Our reserve estimates are top quality. Over 90 per cent of our reserves have been reviewed by independent engineers and our booking practices are reviewed by a committee of the Board of Directors. We have consistently achieved top quartile finding and development ("F&D") costs without booking a large number of proved undeveloped reserves. In fact, only 17 per cent of our proved reserves are undeveloped, reflecting our practice of matching reserve bookings to our investment in development capital.

We continued to achieve one of the lowest overall cost structures in our industry – a crucial characteristic in a volatile commodity business. This is true not only for our oil and gas operations but also for our chemicals operations where we are one of the lowest cost producers of sodium chlorate in the world.

Our activities in 2000 generated outstanding value for shareholders:

- 21 per cent growth in reserves per share;
- 23 per cent growth in production per share;
- 130 per cent growth in cash flow per share;
- 880 per cent growth in net income per share.

These results are a testament to the quality of our core assets and to the hard work of our valued employees.

Most important, we have achieved this while investing in our global exploration portfolio, which is now delivering tangible results. Notably, we had two major discoveries in 2000 – at Gunnison in the deep waters of the Gulf of Mexico and at Guando on the Boquerón Block in Colombia, adding to our 1998 Ukot discovery offshore Nigeria. These discoveries confirm the quality of our exploration inventory and our growth strategy. What is most impressive is that we have achieved top quartile reserve performance without booking any reserves to date from these successes.

Our Global Growth Strategy

> We are global explorers – we generate value for shareholders by successfully finding and developing world-class opportunities, and then producing them at low cost to yield the greatest earnings potential. Efficient core operations and high-potential exploration, supported by financial strength, dedicated employees and other assets are the key building blocks of our growth strategy.

Over the past two years, we have capitalized on downturns in the business cycle to expand our exploration portfolio. We have captured high-quality opportunities in Yemen, the deep waters of the Gulf of Mexico, and in Colombia and Nigeria, at prices below those commanded in the current environment. Today we are opportunity rich. Our total exploration and development portfolio has an unrisked reserve potential of almost nine billion barrels and is capable of generating 12 to 15 high-potential drilling prospects per year.

Largest Capital Program in Our History

> In 2001, we will build on the momentum surrounding our recent exploration successes and manage the largest capital program in our history. Our total capital budget of $1.3 billion, to be financed from cash flow, has three priorities.

First, we will maximize the value of our existing core operations. Our capital program will grow production to over 272,000 boe per day in 2001.

Second, we will accelerate appraisal of our exploration successes in the Gulf of Mexico, Nigeria and Colombia to provide growth in 2001 and beyond. We will also high-grade our inventory of in-situ bitumen reserves in Canada for future development.

Third, we will drill 30 exciting new prospects to ensure a steady stream of growth opportunities in the longer term. Our 2001 capital program will expose us to over 2.6 billion equivalent barrels of unrisked reserve potential in the Gulf of Mexico, Yemen, Indonesia, Colombia, Nigeria and Australia. We will drill several low-risk prospects that complement our Gunnison and Guando discoveries, as well as higher risk prospects such as the Seram block offshore Indonesia and the Northern Blocks in Yemen.

Success on our new prospects, together with the development of our recent exploration successes and our western Canadian in-situ bitumen resource, will provide the basis for strong value growth over the next decade.

Energy to Outperform

> At Nexen, we are always pursuing opportunities to create and exploit our competitive advantage. Our strong core operations and exploration opportunities are supported by a number of strategic initiatives designed to make us more successful. Developing intellectual capital, re-engineering work processes, implementing advanced technology, and sustaining our environment through sound business practices are all key to our success.

In 1999 and 2000, we capitalized on the strength of our core operations to capture and explore exciting new opportunities. Our success indicates that our strategy is on track. In 2001, we will convert more opportunities into realities and continue growing value for shareholders. The combination of a sound growth strategy, high-quality opportunities and talented employees will reap benefits for Nexen and our shareholders in 2001 and beyond. Our promising future has stirred a new energy at Nexen – the energy to outperform.

Victor J. Zaleschuk
President and Chief Executive Officer

March 1, 2001
Calgary, Alberta

Nexen's mission is to grow the value of each common share. Over the years, we have consistently grown reserves and production per share while achieving top quartile finding and development costs and excellent reserve replacement performance. While strategic acquisitions, dispositions and a share repurchase have been used to increase shareholder value, our strategy is based on what we do best – adding value with the drill bit and through sound financial management.

THE BUILDING BLOCKS OF OUR GROWTH STRATEGY:

1. Core Assets

Nexen's core assets include operations in Yemen, the Gulf of Mexico, western Canada and our investment in the Syncrude Joint Venture. These assets ground our Company with the following strengths:

> They are large-scale, efficient operations capable of steady, long-term growth of six to eight per cent annually, consuming only a modest portion of the cash flow they generate.

> They provide the core technical and operating expertise which allow us to be successful global explorers, and the financial capacity to sustain our high-potential exploration program.

2. High-Potential Exploration

Nexen targets approximately 15 per cent of its capital budget to capture and test high-potential exploration opportunities. Our prospects, many of which are now maturing to the drilling stage, feature similar characteristics:

> They have attractive fiscal terms capable of generating strong economic results.

> They have favourable geological and geophysical characteristics to produce sizeable prospects at reduced risks.

> They are located in proven basins which have multiple opportunities for entry and success.

> They capitalize on Nexen's proven capabilities including expertise in managing offshore and heavy oil operations, low-pressure reservoirs, large-scale facilities and remote desert environments.

> Nexen and its partners have the existing operational and technical capacity to develop successes quickly.

3. Financial Strength

Significant free cash flow generated from our core assets provides us with financial strength and the capacity to grow throughout the industry's cycle. This strength stems from effective capital stewardship and prudent financial management:

> We allocate capital to projects based on returns generated and strategic fit, not just on production growth or reserve additions.

> We sell maturing assets that lack growth potential and replace them with prospective assets.

> We select the most cost-effective way to finance activities without diluting value for shareholders.

> We ensure our financial strategy supports and advances our corporate strategy.

4. "Other Assets"

An important part of our strategy is to continue investing in our "other assets" that drive or enhance our core activities. This includes our chemicals business which continues to generate free cash flow to support its growth and our oil and gas exploration strategy. Other assets also include our technical, financial and marketing expertise, information technology, and our reputation and relationships in the communities where we operate.

NEXEN'S STRATEGY TO MAXIMIZE VALUE:

Maximize the return on capital invested and free cash flow generated from our core assets.

> Build our technical capabilities by operating the majority of our production.

> Achieve economies of scale by acquiring surrounding land and infrastructure.

> Maintain steady core growth through low-risk exploration, extension of known plays and aggressive exploitation.

EXAMPLES OF STRATEGY AT WORK:

> Since 1997, we have doubled the remaining proved reserves on our Masila Block in Yemen and increased production by 13 per cent, while generating over $770 million of free cash flow.

> In the Gulf of Mexico, we have capitalized on our shallow-water technical expertise and established relationships to become a large independent acreage holder in the Gulf's deep waters, resulting in a significant discovery at Gunnison in 2000.

> In Canada, we have achieved economies of scale through dominant land positions in our core areas, contributing to an impressive reserve replacement of 210 per cent in 2000 at a cost of just $6.22 per boe.

> Compress the cycle time needed to evaluate our current exploration opportunities, convert exploration successes into reserves, grow production quickly and efficiently, and expand and high-grade our portfolio by capturing follow-up opportunities arising from successes.

> Complete this cycle at the lowest cost possible without jeopardizing future growth.

> We have captured additional high-potential acreage surrounding our discoveries at Gunnison in the Gulf of Mexico and at Boquerón in Colombia to lever our knowledge for further success.

> We have formed key partnerships in the Gulf of Mexico with companies who have access to deep-water drilling rigs and advanced technology to speed up cycle times (e.g. SPAR technology – see page 18).

> We have increased the pace of our drilling program in Yemen by doubling our drilling fleet from two to four rigs to reduce cycle times.

> Ensure core assets generate sufficient free cash flow to fund ongoing capital programs.

> Maintain financial liquidity, flexibility and capacity to take advantage of key business opportunities as they arise throughout the industry's cycle.

> Target a net debt to cash flow ratio of one to two times over the long term.

> We have strategically used our balance sheet to fund opportunities such as the Masila development in 1993, the Wascana acquisition in 1997 and the share repurchase from Occidental in 2000. Each time, we have quickly restored our financial strength while continuing to build our business.

> Since December 2000, we have acquired downside price protection by purchasing crude oil put options on 80,000 bbls/d, or 65 per cent of our net production (after royalties and government take), at an average price of U.S. $20.70 per barrel. This is inexpensive insurance for our capital program without capping the upside potential we see in commodity prices.

> Develop effective business solutions for long-term competitive advantage and maximum return on invested capital.

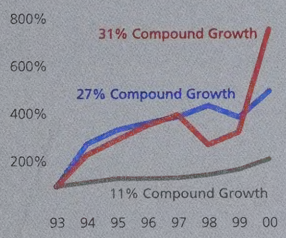
> Manage "above ground" issues in areas where we operate for the benefit of all stakeholders.

> We have entered into the electricity business with a low-risk joint venture at our Balzac Plant (see page 24).

> We are currently implementing an enterprise-wide system for information integration and streamlined decision-making (see page 24).

> We actively promote the International Code of Ethics, which we helped develop in 1997.

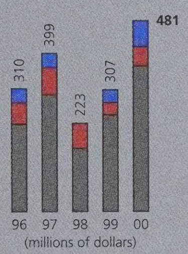
KEY VALUE DRIVERS: The following value drivers chart our progress towards maximizing shareholder value.



Value Growth

Production, reserves and cash flow per share are measures of value growth. To isolate value attributable to common shareholders, these drivers are debt adjusted, by backing out the reserves and cash flow required to pay off our outstanding debt and preferred securities.

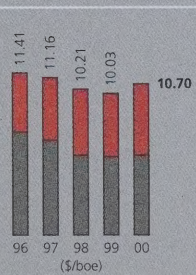
Cash Flow per Share
Production per Share
Proved Reserves per Share



Free Cash Flow Contributors

The generation of cash flow in excess of capital expenditures demonstrates our ability to finance our global exploration growth. Our operations in Yemen, Chemicals and Syncrude generated free cash flow of $481 million in 2000 and are historically our largest free cash flow contributors. Our Canadian operations also had an outstanding year in 2000, generating $154 million in free cash flow.

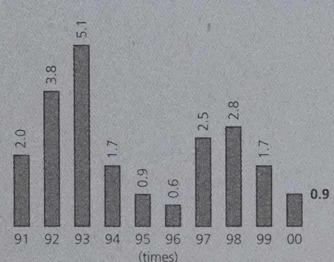
Yemen Chemicals Syncrude



Cost-Effectiveness

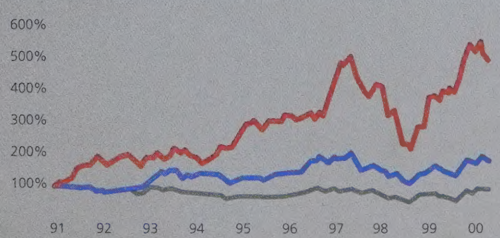
In a commodity-driven environment, low-cost producers consistently excel. Cost-effectiveness is measured by examining the total cost to inventory and produce a barrel of oil equivalent. Since 1996, our total costs, including our five-year average reserve replacement and annual operating and G&A, have dropped by six per cent to $10.70, and our reserve replacement costs alone are down by 23 per cent. Excluding Australia and Syncrude which both encountered higher operating costs in 2000, the decrease in total costs would have been 10 per cent.

Reserve Replacement Cost Operating and G&A Costs



Financial Strength

Net debt to cash flow ratio demonstrates our financial strength and ability to service outstanding debt. After both the development of Masila in 1993 and the Wascana acquisition in 1997, we restored our financial strength and reduced our debt levels to less than one year of cash flow.



Share Performance

Our share price has increased at an annual compounded rate of 18 per cent since the end of 1990, significantly outperforming the major oil and gas indices.

Nexen
TSE Oil and Gas Index
S&P Oil Index

Discussion with Vic Zaleschuk, President and Chief Executive Officer

What are the factors that will cause Nexen's share price to outperform in the coming year?

> There is room for significant expansion in Nexen's multiple. The growth potential of our exploration portfolio distinguishes us from our peers. The market pays for low-cost production growth. So, as we define the production impact of our recent exploration successes and commence development of these exciting opportunities, we expect to see a positive impact on our share price. The market also rewards companies which are successful over the long term. We are just hitting our exploration stride and, with 30 high-potential wells drilling this year, we expect to announce additional projects that will provide us with sustainable value growth longer term and increase our share price.

Another factor is oil and gas prices. If they are close to last year, our cash flow per share will be a lot higher due to our production growth, fewer shares outstanding and cost control initiatives. Even if oil prices decline to $25 per barrel, our cash flow will still approximate the $12 per share we generated in 2000.

What's your strategy with respect to product mix – oil versus gas?

> We are a sizeable and efficient gas producer in North America. However, the majority of our global production and existing high-potential exploration opportunities are oil prone. This is a deliberate strategy because natural gas has little value in most of the international places where we operate due to a lack of infrastructure for transporting and uses for this fuel.

Our expertise lies in efficiently finding and producing oil. So, it would take a major event such as a significant discovery or a large acquisition to significantly increase the proportion of gas in our production mix.

Are you considering an acquisition?

> Acquisitions, like the Wascana acquisition in 1997, are one of the tools we have used to create value for shareholders. However, we are an opportunity-rich, value-driven company. Our history shows that we can find and develop reserves for $4 to $6 per boe, whereas buying barrels in the current marketplace would cost about $10 per boe. So, any acquisition must promise superior returns for shareholders. We continue to evaluate acquisition opportunities and, if something fits from both a value and strategic perspective, we have the capacity to execute.

How does Chemicals fit into your overall business?

> Our chemicals business is valuable and has an important place in our portfolio. We are world leaders in the production and marketing of sodium chlorate. Our North American facilities are among the most efficient in the industry and we have established a presence in the fast growing South American market. This business generates significant free cash flow year after year, which allows us to accelerate our growth during up-cycles in the oil and gas business and provides greater stability during downturns.

2000 was a great year for Nexen. Among the highlights, our production grew seven per cent to 256,000 boe per day, and we exited the year at 263,000 boe per day. We had a great year with the drill bit and replaced 140 per cent of production at a cost of $6.04 per boe. Our exploration program delivered excellent results with discoveries in the Gulf of Mexico, Colombia and on the Masila Block in Yemen.

Core Growth Developing Core Areas High-Potential Exploration

Low-Cost Reserves

> Nexen's core areas continue to yield significant, low-cost reserve additions. In 2000, we added proved reserves of 132 mmboe, including acquisitions and dispositions, and replaced our production by 140 per cent. We again achieved top quartile annual reserve replacement costs (including acquisitions and dispositions) of just $6.04 per boe, with F&D costs (excluding acquisitions and dispositions) of $6.31 per boe. Over the past three years, we have replaced 135 per cent of production annually at a cost of $4.44 per boe, extending our track record of top quartile reserve performance. This is an outstanding achievement considering that we have been investing significant capital in land and seismic acquisitions to expand our exploration portfolio. Our investment is just beginning to pay off and we expect to continue delivering superior reserve performance in future years as we drill exciting new prospects and add reserves from our recent successes.

Each year, Nexen internally evaluates 100 per cent of our proved and probable reserves. For additional assurance, our reserves are assessed by third-party consultants to ensure there are no material misstatements in our estimates. In 2000, over 90 per cent of our reserves were reviewed and evaluated by external reserve consultants who support our estimates. Although we consistently achieve top quartile F&D costs, we have done so without booking a large number of proved undeveloped reserves. In fact, only 17 per cent of our total proved reserves of 813 mmboe are undeveloped, which is very low compared to the Canadian industry average of 32 per cent.

Proved and Probable Reserves[1]

	2000			1999		
	Proved	Probable	Total	Proved	Probable	Total
Crude Oil and Liquids (mmbbls)						
Yemen	205	58	263	204	38	242
Canada	201	56	257	181	58	239
United States	21	3	24	22	2	24
Syncrude Joint Venture	242	129	371	226	138	364
Australia	5	1	6	8	1	9
Other Countries	5	4	9	14	18	32
	679	251	930	655	255	910
Natural Gas (bcf)						
Canada	605	90	695	532	127	659
United States	200	23	223	194	22	216
	805	113	918	726	149	875
Total Reserves (mmboe)[2]	813	270	1,083	776	280	1,056

Notes:

(1) Reserve amounts are shown net to Nexen before royalties and using forecast price assumptions (see page 94). They include our interest in the Syncrude Joint Venture reserves.

(2) Natural gas is converted at 6 mcf per equivalent barrel of oil.

CANADA

Description

Conventional Oil and Gas

[illegible]

Syncrude Joint Venture

[illegible] Syncrude Joint Venture [illegible]

Strategy

Conventional Oil and Gas

[illegible] > Focus on cost control initiatives to improve margin for heavy oil assets > Develop technologies and commercially viable methods to recover vast bitumen reserves in eastern Alberta and western Saskatchewan

Syncrude Joint Venture

> Provides free cash flow and steady growth > Participate in development of additional oil sand leases, de-bottlenecking of plant processing facilities and expansion of upgrading capacity

2000 Activities

Conventional Oil and Gas

> Generated $154 million of cash flow in excess of capital spending of $390 million > Grew [illegible] heavy oil production by 7 per cent > Commenced production at Hay in northern B.C. > Commenced operations to gather and sell gas previously vented or consumed in oil operations > Committed to implementing Responsible Care® management system at Balzac gas plant

Syncrude Joint Venture

> Completed development of North Mine, with 2 trains operating at design capacity > Completed development of mining and extraction facilities at Aurora site, delivering bitumen to base plant mid-year 2000 > Encountered operational setbacks causing temporary production shortfalls

2000 Performance

Conventional Oil and Gas

		Total[1]	Oil	Gas
Production	Average	80.7 mboe/d	53.9 mbbls/d	161 mmcf/d
	Growth[2]	7%	12%	unchanged
	Exit	84.0 mboe/d	55.5 mbbls/d	171 mmcf/d
Cash Netback	Netback	$19.05/boe	$19.98/bbl	$2.85/mcf
Reserves	1 year F&D	$ 6.31/boe	$ 7.37/bbl	$0.74/mcf
	3 year F&D	$ 5.65/boe	$ 6.72/bbl	$0.66/mcf
	RRR[3]	210%	203%	224%
	Life Index	10.2 years	10.2 years	10.3 years
Capital (millions)	Exploration	$ 65		
	Development	$297		
	Acquisitions	$ 28		
Drilling[4]	Exploration	63 wells with 65% success		
	Development	468 wells with 96% success		
Recycle Ratio[5]	Netback/F&D	3.0 times		

Syncrude Joint Venture

		Synthetic Crude Oil
Production	Average	14.7 mbbls/d
	Growth[2]	(9)%
	Exit	16.3 mbbls/d
Cash Netback	Netback	$18.73/bbl
Reserves	1 year F&D	$ 1.69/bbl
	3 year F&D	$ 1.41/bbl
	RRR[3]	407%
	Life Index	45.1 years
Capital (millions)	Development	$ 37
Recycle Ratio[5]	Netback/F&D	11.1 times

2001 Goals

Conventional Oil and Gas

> Drill 463 development wells and 129 exploration wells to grow production by 15 per cent > Invest [illegible] reserves [illegible]

Syncrude Joint Venture

> Continue expanding bitumen production and upgrading facilities, with goal of doubling production [illegible]

YEMEN

Description

> Operator of the Masila Block with 52 per cent working interest, producing from 14 fields in 9 separate horizons > Interests in 23 million acres of land on 7 exploration blocks adjacent and to the north of the Masila Block

Strategy

Masila Block > Provides consistent production growth and exposure to high-potential exploration > Generates free cash flow to support global exploration activities > Continue building reserve base by further developing existing pools and confirming remaining potential on block

Exploration Blocks > Pursue high-potential exploration for long-term growth

2000 Activities

> Grew production for 7th consecutive year and produced the 500 millionth barrel from Masila Block in January 2001 > Commenced expansion of Masila facilities > Acquired 2,500 kilometres of seismic on 6 exploration blocks > In January 2001, acquired 60 per cent working interest on Block 59 after Yemen/Saudi Arabia border dispute resolved, bringing total exploration blocks to 7

2000 Performance

		Oil
Production	Average	111.9 mbbls/d
	Growth[2]	4%
	Exit	116.8 mbbls/d
Cash Netback	Netback	$11.67/bbl
Reserves	1 year F&D	$ 2.68/bbl
	3 year F&D	$ 1.84/bbl
	RRR[3]	102%
	Life Index	5.0 years
Capital (millions)	Exploration	$15
	Development	$98
Drilling[4]	Development	30 wells with 87% success
Recycle Ratio[5]	Netback/F&D	4.4 times

2001 Goals

Masila Block > Continue expanding capacity of Masila facilities > Delineate and exploit reserve potential of secondary horizons with 12 waterflood wells > Continue exploration with 8 wells

Exploration Blocks > Continue seismic program on Exploration Blocks > Test up to 3 high-potential exploration prospects > See page 19 for details

UNITED STATES

Description

Gulf of Mexico

> Focused operations with 85 per cent of production from 4 core properties in shallow waters > Interests in 187 blocks in the Gulf, 98 of which are in deep water (greater than 660 feet)

Strategy

Shallow-Water Operation > Provides consistent core production growth at relatively low risk > Generates free cash flow to support deep-water exploration activity

Deep-Water Exploration > Advance deep-water exploration activities for intermediate-term growth > High-grade inventory portfolio to build on recent success

2000 Activities

Shallow Water Operations > Aggressive development program increased year-over-year exit production rate by 9 per cent > Achieved impressive netbacks due to low-cost operations and record gas prices > Brought on-line 2 discoveries in the shallow waters (West Cameron 170 and Eugene Island 19)

Deep-Water Exploration > Major discovery at Gunnison > Added 31 blocks of acreage to our inventory, 12 adjacent to Gunnison discovery

2000 Performance

		Total[1]	Oil	Gas
Production	Average	29.9 mboe/d	11.1 mbbls/d	113 mmcf/d
	Growth[2]	unchanged	8%	(3)%
	Exit	33.3 mboe/d	11.8 mbbls/d	129 mmcf/d
Cash Netback	Netback	$29.73/boe		
Reserves	F&D (shallow)	$13.40/boe – 1 year ($12.03/boe – 3 year)		
	Total F&D	$21.38/boe – 1 year ($18.28/boe – 3 year)		
	RRR[3]	103%		
	Life Index	5.0 years		
Capital (millions)	Exploration	$143		
	Development	$ 81		
	Acquisitions	$ 4		
Drilling[4]	Exploration	8 wells with 50% success		
	Development	19 wells with 79% success		
Recycle Ratio[5]	Netback/F&D	1.4 times		

2001 Goals

> Accelerate appraisal with goal to commence development of Gunnison discovery > Increase production by 4 per cent on shelf > Test 16 high-quality exploration prospects (8 shallow-water and 8 deep-water) > Expand and high-grade our exploration inventory > See page 16 for details

Notes and Abbreviations

(1) [illegible] gas [illegible] at 6 mcf per equivalent barrel of oil. (2) Represents growth over prior year for average volumes [illegible] (4) Represents gross number of wells in which Nexen participated. (5) As a [illegible] indicates an attractive return on investment of approximately 15%.

Low-Cost Reserves

> Nexen's core areas continue to yield significant, low-cost reserve additions. In 2000, we added proved reserves of 132 mmboe, including acquisitions and dispositions, and replaced our production by 140 per cent. We again achieved top quartile annual reserve replacement costs (including acquisitions and dispositions) of just $6.04 per boe, with F&D costs (excluding acquisitions and dispositions) of $6.31 per boe. Over the past three years, we have replaced 135 per cent of production annually at a cost of $4.44 per boe, extending our track record of top quartile reserve performance. This is an outstanding achievement considering that we have been investing significant capital in land and seismic acquisitions to expand our exploration portfolio. Our investment is just beginning to pay off and we expect to continue delivering superior reserve performance in future years as we drill exciting new prospects and add reserves from our recent successes.

Each year, Nexen internally evaluates 100 per cent of our proved and probable reserves. For additional assurance, our reserves are assessed by third-party consultants to ensure there are no material misstatements in our estimates. In 2000, over 90 per cent of our reserves were reviewed and evaluated by external reserve consultants who support our estimates. Although we consistently achieve top quartile F&D costs, we have done so without booking a large number of proved undeveloped reserves. In fact, only 17 per cent of our total proved reserves of 813 mmboe are undeveloped, which is very low compared to the Canadian industry average of 32 per cent.

Proved and Probable Reserves(1)

	2000			1999		
	Proved	Probable	Total	Proved	Probable	Total
Crude Oil and Liquids (mmbbls)						
Yemen	205	58	263	204	38	242
Canada	201	56	257	181	58	239
United States	21	3	24	22	2	24
Syncrude Joint Venture	242	129	371	226	138	364
Australia	5	1	6	8	1	9
Other Countries	5	4	9	14	18	32
	679	251	930	655	255	910
Natural Gas (bcf)						
Canada	605	90	695	532	127	659
United States	200	23	223	194	22	216
	805	113	918	726	149	875
Total Reserves (mmboe)(2)	813	270	1,083	776	280	1,056

Notes:

(1) Reserve amounts are shown net to Nexen before royalties and using forecast price assumptions (see page 94). They include our interest in the Syncrude Joint Venture reserves.

(2) Natural gas is converted at 6 mcf per equivalent barrel of oil.

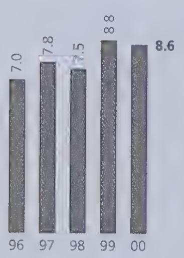
Booking Practices

> Our booking practice is to match reserve recognition with our investment in development capital. This ensures that finding and development costs are not understated early in a project's life and overstated as the project matures. As such, we have not booked any proved reserves in 2000 for our recent discoveries in the deep waters of the Gulf of Mexico, in Colombia, or on our 1998 Ukot discovery offshore Nigeria. These reserve additions will come as we complete delineation and move to commercial development in 2001 and beyond.

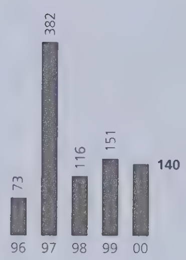
Reserve Adjustments

> The reserve reconciliation chart on page 94 demonstrates that a large component of our reserve adjustments are upward revisions and extensions and discoveries. These adjustments primarily reflect increases in reservoir potential. In 2000, the revisions were primarily due to remapping, remodelling and improved petrophysical parameters for existing pools in Yemen, development of existing gas pools and oil drilling activities in Canada, and drilling at Eugene Island, West Cameron and Vermilion in the shallow waters of the Gulf of Mexico. The extensions and discoveries in 2000 related to gas and heavy oil development in Canada, gas discoveries and development drilling in the United States, plant expansion at Syncrude and exploratory drilling on the Masila Block in Yemen.

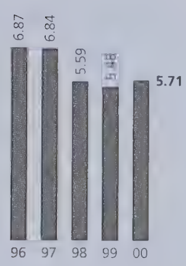
Reserve Life Index(1) – Proved Reserves(5)
(years)



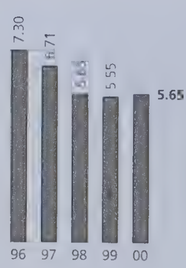
Reserve Replacement Ratio(2) – Proved Reserves(5)
(per cent)



Finding and Development Costs(3) Five-Year Average – Proved Reserves(5)
($/boe)



Reserve Replacement Costs(4) Five-Year Average – Proved Reserves(5)
($/boe)



Notes:

(1) Defined as year-end reserves divided by current year production.

(2) Defined as total reserve additions, including acquisitions and dispositions, divided by total production.

(3) Defined as total capital expenditures divided by total reserve additions.

(4) Defined as total capital expenditures divided by total reserve additions, both including acquisitions and dispositions.

(5) Reserve amounts are shown net to Nexen before royalties and using forecast price assumptions. They include our interest in the Syncrude Joint Venture reserves. (Natural gas is converted at 6 mcf per equivalent barrel of oil.)

2001 Capital Program

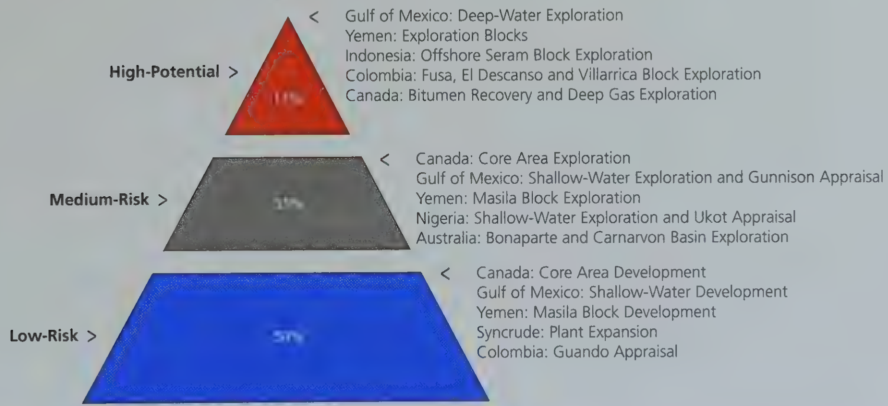
> Our capital program of $1.3 billion is the largest capital program in our history. We will spend $1.2 billion on our oil and gas assets, with the following objectives:

1. Maximize the value of our core operations.
2. Accelerate appraisal of our exploration successes in the Gulf of Mexico, Nigeria and Colombia.
3. Fund a high-quality exploration program that levers off our recent exploration successes.

This capital program provides a balance of risk and reward. High-risk, high-reward exploration opportunities are offset by low-risk appraisal and development in our core areas.

Balance of Risk and Reward

$1.2 billion

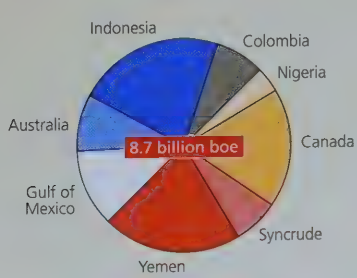


Future Growth Potential

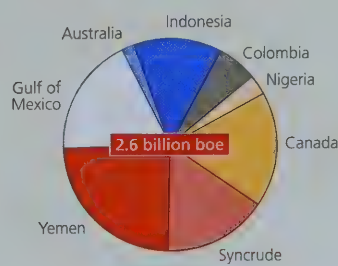
> Nexen's inventory of exploration and development prospects totals almost nine billion barrels of reserve potential, 30 per cent of which we will test in 2001. We will spend $430 million on exploration activities including land and seismic acquisitions, low to medium-risk exploration and 30 high-potential wells.

Unrisked Reserve Potential

Total Opportunity Portfolio



2001 Capital Program



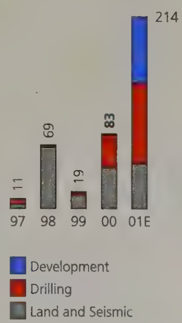
DEEP WATERS OF THE GULF OF MEXICO

Over the past decade, the deep waters of the Gulf of Mexico have developed from an exploration frontier into one of the most prospective new sources of oil and gas production in the world. Large discoveries, high success rates, rapidly developing infrastructure, very attractive economics and ready access to energy-starved markets combine to make this a premier exploration opportunity.

Nexen has been operating in the shallow waters of the Gulf since the 1980s. We have capitalized on our shallow-water knowledge and expertise to understand the deep waters, where we see opportunity for significant growth. Since 1997, we have been building an enviable acreage position in the deep waters, and are currently one of the larger independent leaseholders there. Our deep-water portfolio is maturing rapidly, with an exploration success at Gunnison in 2000, and an inventory of 38 high-quality prospects approaching the drill-ready phase.

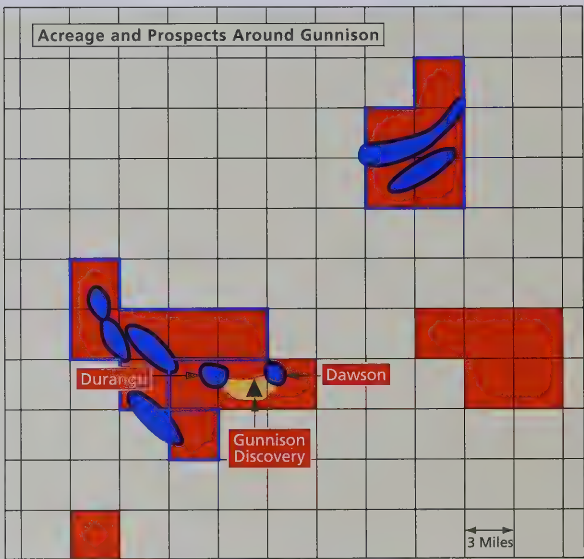
Our plan for 2001 is to accelerate appraisal of the Gunnison discovery and explore eight deep-water prospects. In addition, we will drill eight shallow-water prospects which are expected to provide growth in the near term to balance the longer term deep-water projects.

Capital Investment in Deep Waters
(millions of dollars)



As our exploration portfolio matures to the drilling phase, we shift the focus of our capital program from land and seismic acquisitions to drilling and development activities.

The Transocean Richardson semi-submersible rig – currently used at Gunnison.



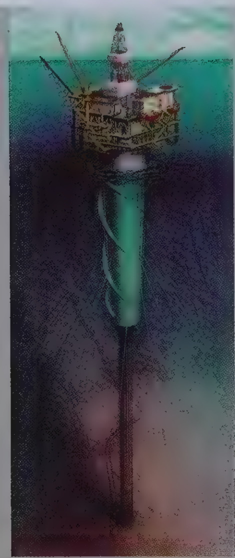
Nexen Acreage New Blocks Prospects

Gunnison Discovery

Nexen's fourth deep-water well in the Gulf of Mexico produced our first success at Gunnison. The 17,000-foot discovery well in 3,150 feet of water encountered over 350 net feet of high-quality crude oil and natural gas pay in three main zones. Appraisal drilling and further seismic analysis indicate significant areal extent to these pools. Nexen has a 30 per cent working interest in Gunnison, which is operated by Kerr McGee.

We are continuing appraisal drilling in 2001 to evaluate the full potential of Gunnison. Our immediate goal is to confirm commercial reserves in order to initiate construction of the production facility later this year. Fast-track development of Gunnison could result in first production by late 2003 or early 2004 with F&D costs estimated to be at U.S. $3 to U.S. $5 per barrel.

In 2000, Nexen captured 50 per cent interests in 12 additional blocks in the Gunnison area that feature six exploration prospects. Seismic analysis points to additional potential on these lands and Nexen plans to drill several of these prospects over the next few years. In addition, Nexen has two direct offsets to the Gunnison discovery, Durango and Dawson, which will be tested in 2001.



SPAR Technology

Deep-water development technology is maturing rapidly. Many recent projects have taken advantage of SPAR technology. A SPAR platform is a floating cylindrical structure that is moored to the ocean floor. SPARs are manned and have separation and transportation capabilities. The major advantage of a SPAR is that the wellheads and production equipment are located above the water line, making the wells much easier and cost-effective to maintain and repair. There are currently three SPAR production platforms operating in the deep waters of the Gulf of Mexico. Kerr McGee, Nexen's partner in the Gunnison discovery, is the operator of one of these platforms and currently has two others under construction.

The economics of deep-water developments using SPAR technology are increasingly attractive. F&D costs for a typical 100 million barrel pool in approximately 3,500 feet of water are between U.S. $3 and U.S. $5 per barrel.

YEMEN

▲ 2001 Drilling Locations

Masila Block

Nexen is the largest oil producer in Yemen and the Masila Block is one of Nexen's prime growth assets. It has delivered continuous reserve and production increases since it came on-stream in 1993 and we expect growth in 2001. Currently, over 90 per cent of Masila's proved reserves are contained in the upper Qishn horizon where we will test five new prospects in 2001.

The Masila Block offers other growth opportunities. We are testing oil in six other horizons located below the upper Qishn where western Canadian type development and exploitation techniques are being used to unlock the potential of these horizons. We are continuing to explore the perimeter of the Masila Block looking for deeper carbonate reservoirs. This program has already seen one discovery in 2000, indicating that we are on the right track towards identifying the remaining potential of this block.

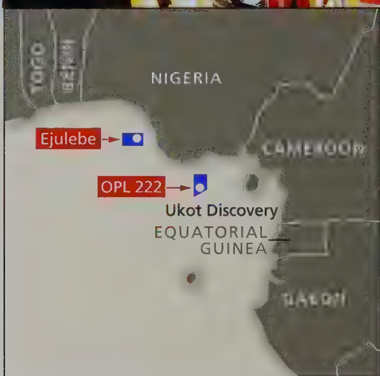
The economics of Masila production are very appealing. F&D costs are between U.S. $1 and U.S. $2 per barrel and operating costs have historically averaged less than U.S. $1 per barrel resulting in excellent returns for shareholders.

Exploration Blocks

In addition to the Masila Block, Nexen holds interests in seven exploration licenses on over 23 million acres of undeveloped land. We expect to acquire up to 2,250 kilometres of 2D seismic over this acreage and will drill up to three exploration wells in 2001. The primary target of our exploration program is the prolific Paleozoic-aged reservoirs which are productive throughout the Middle East.

Nexen's exploration blocks have similar fiscal terms to the Masila Block. These terms, combined with Nexen's control of infrastructure to cost-effectively explore, develop and produce oil, ensure attractive returns for new discoveries.

NIGERIA



Block 222 – Ukot Discovery

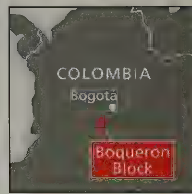
Nexen is appraising its deep-water discovery at Ukot on Block 222, offshore Nigeria. The Ukot well production tested at a rate of 13,900 bbls/d. Nexen has a 20 per cent interest in this discovery which is operated by TotalFinaElf. Ukot is capable of very high production rates. Combined with attractive fiscal terms, development of Ukot could generate solid returns.

A 1,000-square-kilometre 3D seismic survey over Block 222, completed in 2000, indicates an extensive but complex reservoir. The first appraisal well is scheduled to be drilled in the fourth quarter of 2001, with additional appraisal drilling in early 2002.

Ejulebe

The Ejulebe Field exited 2000 at 4,300 bbls/d. In 2001, we plan to drill an infill well which should increase production to an average of 5,000 bbls/d.

COLOMBIA



Export Pipeline ▪ ▪ Proposed Pipeline Prospects ○ Well Locations

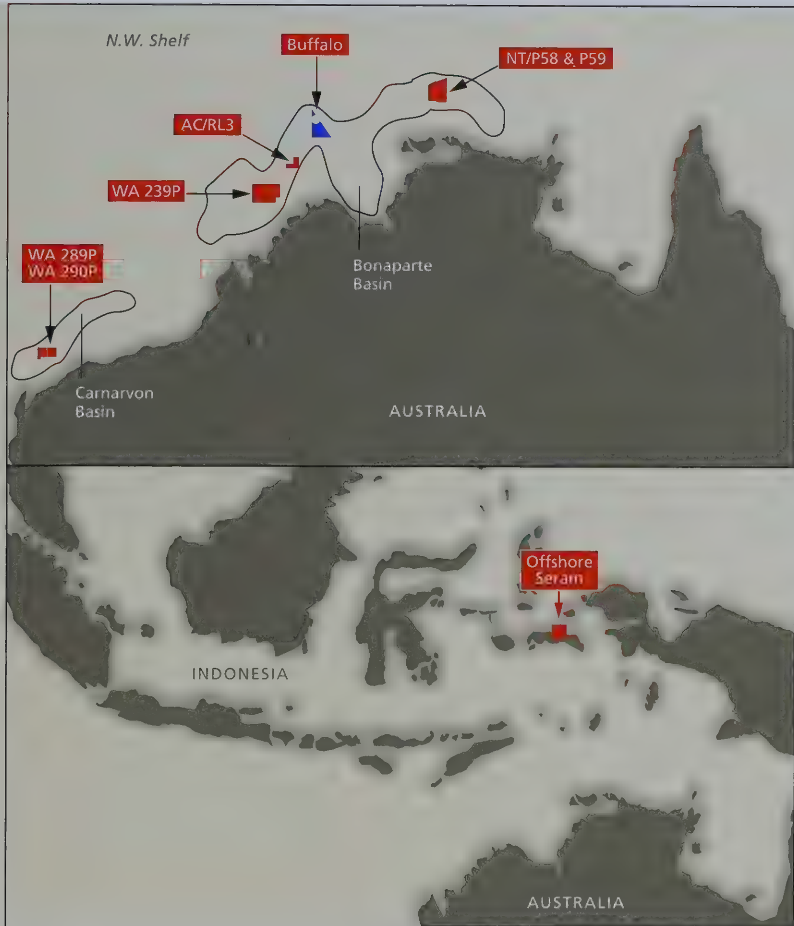
Boquerón Block – Guando Discovery

Nexen is appraising its 2000 discovery at Guando on the Boquerón Block in Colombia's Upper Magdalena Basin. The discovery is attractive for several reasons. It is located near Bogotá, is close to infrastructure and is inexpensive to drill and develop due to the shallow reservoir. This, combined with attractive fiscal terms, results in a rapid return of capital.

The discovery well encountered 1,000 feet of hydrocarbon pay in a shallow, low-pressure reservoir in the Guadalupe formation. Four wells and a sidetrack have been drilled in the field. Three of these wells are on long-term test to determine the productive capability of this complex reservoir. A 166-square-kilometre 3D seismic program was concluded during the first quarter of 2001. This program was designed to improve our understanding of the reservoir and determine the optimal locations for future appraisal wells. Drilling is expected to resume in the second quarter. Nexen has a 40 per cent working interest in the Boquerón Block. This interest could be reduced to 20 per cent upon declaration of commerciality if back-in provisions are exercised by the state oil company.

Following the Guando discovery, Nexen acquired a 50 per cent interest in the El Descanso Block and 100 per cent of the Fusa and Villarrica exploration blocks. All three exploration blocks are on trend with Guando and contain numerous leads in both the Guadalupe and deeper horizons. A 700-kilometre 2D seismic program is in progress to determine drilling locations, with the first exploration well to be drilled in 2001. All three exploration blocks benefit from recent improvements in Colombia's fiscal terms.

AUSTRALIA AND INDONESIA



The Buffalo field offshore the northwest shelf of Australia commenced operation in December 1999 and in 2000, production exited at 8,300 bbls/d net to Nexen. Buffalo produces high-quality crude oil which attracts a premium price and generates high netbacks. Nexen acquired the remaining 50 per cent interest in this field in late 2000. This project provides an operating base for ongoing exploration and production in the Far East.

Nexen operates five of our six exploration blocks in Australia and the Offshore Seram Block in eastern Indonesia. We expect to drill two exploration wells on our Australian blocks and test a large prospect on the Offshore Seram Block in 2001.

Nexen is one of Canada's premier oil and gas companies and a leading producer of shallow gas, and conventional and heavy oil. We also have a 7.23 per cent interest in Syncrude Joint Venture in northern Alberta. We achieve steady growth and continued cost improvements from our Canadian assets because of our large, contiguous, operated land position in each core area and our ability to control production and transportation infrastructure.

Developments continue in each of our core areas in 2001. We are expanding our gas production into Montana and from Findley into the Alberta foothills. Our conventional oil business will build on a successful 2000 development program and expand at Hay in northeastern British Columbia. In heavy oil, we are continuing to develop our core heavy oil properties in west central Saskatchewan.

Bitumen – A Long-term Opportunity

Although conventional oil and natural gas production from the western Canadian sedimentary basin is in decline, we believe western Canada will remain a prolific source of oil production because of its vast surface-mineable and in-situ bitumen reserves. Upgraded production from surface mineable reserves, such as Syncrude, is already cost competitive with conventional production and Nexen views its interest in the Syncrude project as a core growth asset.

Nexen's strategy with respect to the recovery of in-situ bitumen reserves is to high-grade our inventory for future development. Nexen has captured a large landholding containing bitumen resource. The existing technology of horizontal wells and steam assisted gravity drainage can recover approximately 60 per cent of this resource. We currently have over one billion barrels of recoverable resource in high-quality reservoirs on our existing lands. However, we believe technological developments to improve operating costs and a strategy to market production will be required to justify large-scale capital investment.

Our industry's record for technological advancement is unmatched and many new developments are on the horizon. Nexen is assessing opportunities such as field-scale upgraders and solvent-based extraction that could provide economic large-scale investment in bitumen development comparable to conventional and surface-mineable projects.

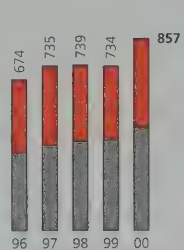
In 2001, we will invest approximately $16 million to test pilot projects and new technologies to further our goal of initiating a commercial project.

Chlor–Alkali Facility
Sodium Chlorate Facility

Nexen Chemicals is an efficient and growing business that continues to generate free cash flow to support its own and other Company growth initiatives. Nexen is a North American leader in the production of sodium chlorate. In 1999, we expanded our sodium chlorate, chlorine and caustic soda operations into the high-growth South American market through the acquisition of the chemicals facilities of Aracruz Cellulose S.A. of Brazil, one of the largest producers of bleached pulp in the world.

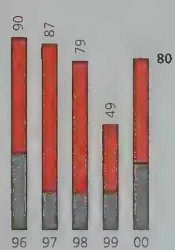
Our strategy for maximizing the value of these assets is to remain a low-cost producer in North America while capturing an increasing share of rapidly growing markets in South America. In 2000, we commenced expansion of our sodium chlorate facilities in Brandon, Manitoba and in Brazil. Brandon is our most efficient North American facility. When completed in 2002, the 70,000-tonne-per-year expansion will allow us to significantly lower our overall unit costs, making us an even stronger competitor. In Brazil, we are expanding our sodium chlorate capacity by 70 per cent to 60,000 tonnes per year. We are also expanding our chlor-alkali capacity by 33 per cent. This is the first phase of a long-term plan to become the leading bleaching chemical producer in South America.

Chemicals Production
(thousand short tons)



Chlor-alkali
Sodium Chlorate

Cash Flow from Operations
(millions of dollars)



Free Cash Flow
Capital Expenditures

Success in today's dynamic global marketplace requires companies to be innovative, adaptive and responsible. At Nexen, we have created effective business solutions to meet the demands of the marketplace and assist us in achieving our aggressive growth strategy. Longer term, these initiatives reinforce Nexen as a partner of choice and add shareholder value in our changing energy industry.

Expanding our Marketing Intelligence

> Our in-house marketing operation enhances the value of our production by having the right product, in the right market, at the right time, and for the best price. In July 2000, we expanded our marketing division with the purchase of Northridge Energy Marketing Ltd., a division of TransCanada PipeLines. The $39 million acquisition was a strategic move with many positive outcomes:

- We have increased the number of suppliers we buy crude oil from, growing our presence in the crude oil marketing business.
- We have added significantly to our light, sweet oil control of production and now have more flexibility with our heavy oil production.
- We have increased our exposure to the gasoline and diesel business, in supplying product to wholesalers.

Increased market intelligence gained through this expansion will allow us to enhance the value of our production.

New Energy – The Balzac Power Plant

> In response to the Alberta government's call for assistance in power generation for southern Alberta, Nexen has formed a joint venture with PanCanadian Petroleum Limited to construct an electric power generation facility at our Balzac Gas Plant. Nexen will operate this 106-megawatt plant, which is expected to be operational by the fourth quarter of 2001.

Competitive Advantages:

- It provides a low-risk entry into the electricity business, allowing us to gain valuable experience in a viable and environmentally sound source of energy.
- It allows us to maximize the value of our Canadian gas production and creates a key link between our oil and gas and chemicals businesses. For example, as we develop market intelligence, we can determine whether we sell our production as gas, convert the gas and sell it as electricity or use the electricity to produce sodium chlorate.
- It is economically sound – we will improve our netbacks for natural gas and benefit from very competitive operating costs at the Balzac Plant.
- The power generated at the plant will offset our consumption at our Alberta oil and gas and chemicals operations, providing a natural price hedge – increases in our electrical costs are offset by an increase in revenues from the project.
- It has long-term potential to afford us emission reduction credits as proposed under the Kyoto Protocol.

New Processes, New Technology – An Enterprise-Wide System

> Nexen is investing $40 million over three years to implement an enterprise-wide system of new processes and technology to integrate our finance, procurement, maintenance and capital programs. This infrastructure will integrate and streamline our information sources to provide the best information at the lowest cost. This means timely, accurate information for decision making, standardized global work processes to eliminate duplication of effort and improve our efficiencies, and a foundation from which we will capitalize on evolving business trends, such as e-business. We expect to complete the implementation of our enterprise system by June 2002.

Safety, Environment and Social Responsibility ("SESR")

> Our commitment to safety, environment and social responsibility is not just a corporate obligation – it's essential to our long-term competitive advantage. As such, we balance our core operations and exploration growth with the following key initiatives:

Business Ethics and Integrity Management

- We promote acceptance and implementation of the International Code of Ethics that we helped develop in 1997.
- We provide Aboriginal cultural awareness training to employees to assist us in dealing fairly with Aboriginal communities where we operate.
- We are a member of the Global Compact, a United Nations-sponsored platform for encouraging good corporate practices and learning experiences in the areas of human rights, labour and the environment.

Investing in Communities

- We donate to specific non-profit organizations, including the Alberta Children's Hospital, the United Way, the Alberta Ecotrust Foundation and many others.
- We provide scholarships to Yemeni students to encourage study in Canada in the disciplines most critical to Yemen's economic growth.
- We continue our Community Affairs Program in Yemen, providing basic assistance for clean drinking water, education, power generation and health care to local communities.

Excellence in EH&S Performance

- We target a zero injury and environmental incident rate in all of our locations and develop proactive safety and environmental programs for employees and contractors.
- Our chemicals division remains committed to responsible management of our products throughout their life cycle by achieving Responsible Care® Round II verification.
- We are adopting the Responsible Care® program in our oil and gas operations with pilot projects at our Balzac gas plant and Yemen Masila Block operations.

Reducing Global Gas Emissions

- We are investing $1 million by participating in the Rio Bravo Carbon Sequestration Project to protect and preserve rain forest areas in Belize. The rain forest absorbs carbon dioxide and provides the project's participants with an opportunity to offset gas emissions elsewhere in the world.
- We are using gas gathering systems at our heavy oil operations in Saskatchewan to capture, compress and sell gas that was previously emitted into the atmosphere.

For further information on our SESR programs and performance, please contact us at (403) 234-6086 for a copy of our annual Progress Report.

> OUR STORY IS IMPRESSIVE. NEXEN HAS WORLD-CLASS ASSETS THAT SET US APART FROM OUR PEERS. WE EXECUTE A BUSINESS STRATEGY AND POSITION OURSELVES TO CAPITALIZE ON NEW OPPORTUNITIES. WE'RE PROUD OF WHAT WE'VE ACHIEVED AND WE'RE EXCITED ABOUT THE FUTURE.

We look for opportunities. We find oil and we deliver value.

Exploration Blocks – Northern Yemen

> **WE OPERATE WORLD-CLASS PROJECTS**

We know how to build infrastructure.

Masila, Yemen

We have the technical expertise.

Offshore Nigeria

> **WE HAVE THE PEOPLE AND THE EXPERIENCE**

to find the oil, get it out of the ground and turn it into profit.

Eugene Island, Gulf of Mexico

New exploration, new energy.

The Transocean Discoverer Spirit Drill Ship – technology we use in the deep waters of the Gulf of Mexico.

> **WE BELIEVE DIVERSITY GIVES STRENGTH AND FLEXIBILITY**

Diversity in people, places and opportunities.

Chemicals, Taft, Louisiana

It is essential to our long-term competitive advantage.

Plover Lake, Saskatchewan

with real integrity, real diversity, real discoveries and real performance.

Ash Shihr Terminal, Yemen

The following should be read in conjunction with the Consolidated Financial Statements included in this report. The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in Canada. The impact of the significant differences between Canadian and United States accounting principles on the financial statements is disclosed in Note 15 to the Consolidated Financial Statements. Unless otherwise noted, tabular amounts are in millions of Canadian dollars, and sales volumes, production volumes and reserves are before royalties.

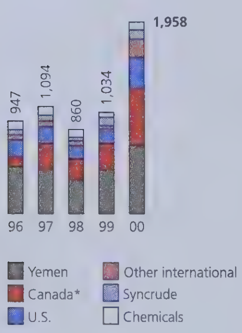
Overview of 2000

> Strong crude oil and natural gas prices, excellent drilling results and a continuous focus on costs combined to generate record results for Nexen in 2000. Net income reached an all time record of $602 million, while cash flow from operations was also a record at $1,569 million. A capital investment program of almost $1 billion generated growth in production and reserves. Oil and gas production rates increased seven per cent to average 256,000 barrels of oil equivalent ("boe") per day. For the fourth consecutive year, Nexen's reserve additions exceeded its production, adding 132 million boe of proved reserves.

Commodity prices were a significant contributor to record financial results during 2000. The West Texas Intermediate reference price for crude oil ("WTI") averaged U.S. $30.21 per barrel for the year, the highest annual average since 1983 and a 57 per cent and 109 per cent increase over 1999 and 1998, respectively. Strong crude oil prices are primarily a result of the 1999 agreement between the Organization of Petroleum Exporting Countries ("OPEC") and certain non-OPEC producing countries to restrict the production of crude oil. Rising worldwide demand for crude oil and reduced levels of crude oil inventories also placed upward pressure on prices during 2000. North American gas prices also increased significantly during 2000. The New York Mercantile Exchange ("NYMEX") spot gas price averaged U.S. $4.31 per thousand cubic feet ("mcf") during the year, compared to U.S. $2.31 per mcf in 1999 and U.S. $2.17 in 1998. In Canada, the Alberta spot price averaged $5.10 per mcf as compared with $2.77 and $1.93 per mcf in 1999 and 1998, respectively. The significant increase in natural gas prices reflects tight supply and reduced storage levels combined with an increase in demand resulting from strong economic activity.

Net income for 2000 was $602 million ($4.52 per common share after preferred share dividends) compared to $100 million ($0.46 per common share after preferred share dividends) in 1999 and a loss of $110 million ($0.83 per common share after preferred share dividends) in 1998. Stronger crude oil prices increased income by $340 million as approximately 83 per cent of the Company's production is from crude oil. Stronger gas prices added $123 million to earnings. Increased production volumes from Australia, Canada and Yemen contributed $66 million to earnings, net of associated operating costs and depreciation, depletion, and amortization. These gains were partially offset by higher exploration expense as a result of a larger capital program in 2000 and higher interest expense on increased debt levels. The loss in 1998 reflected an exceptionally difficult year for oil and gas producers, with oil prices near 20 year lows, and after-tax charges of $40 million for impairment of assets in Nigeria and $12 million for employee termination costs. These were offset by the results of an asset disposition program which generated $112 million of after-tax gains.

Divisional Cash Flow (Before Corporate and Other Items)
(millions of dollars)



* includes marketing

The Company managed a $954 million capital investment program during the year, a 36 per cent increase over 1999 levels. Approximately 90 per cent of the program related to oil and gas expenditures, of which 65 per cent related to development activities with the remainder for exploration projects. Development activities were focused on increasing production, reserves and profitability in our core areas in Yemen, Canada and the shallow waters of the United States Gulf of Mexico. The Company's exploration program was its largest ever with almost half the funds directed to seismic and drilling in the Gulf of Mexico. This strategy yielded the Company's first discovery in the deep waters of the Gulf, which is currently being evaluated for commerciality. The Company also had an oil discovery in Colombia

and is currently evaluating its prospects there. The capital program increased annual production rates to 256,000 boe per day, seven per cent higher than in 1999. In addition, the program added 130 million boe of proven reserves at a finding and development cost of $6.31 per boe, replacing 140 per cent of production.

Also of significance during 2000 was the Company's repurchase of almost 15 per cent of its outstanding common shares for cancellation. In April 2000, the Company, Ontario Teachers' Pension Plan Board ("Teachers") and Occidental Petroleum Corporation ("Occidental") entered into an agreement (the "Agreement") whereby Occidental would sell its 29 per cent interest in Nexen. Under the terms of the Agreement, Teachers purchased 20.2 million common shares of the Company. Nexen repurchased 20 million of its common shares for proceeds of $605 million. In addition, the Company exchanged its oil and gas operations in Ecuador for Occidental's 15 per cent interest in the Company's chemicals operations.

The Company's financial capacity remained strong during 2000. Cash generated from operating activities was used to fund substantially all of the capital investment program and the share repurchase. At December 31, 2000, the Company had undrawn, committed long-term credit facilities in excess of $1 billion and a senior debt rating of BBB from Standard and Poor's Corporation, Baa2 from Moody's Investors Services, Inc. and BBB from Dominion Bond Rating Services Inc.

Net Income under United States Accounting Principles

> Net income in accordance with United States accounting principles was $522 million ($4.17 per common share) as compared to $63 million ($0.46 per common share) in 1999 and a loss of $115 million ($0.84 per common share) in 1998. The differences from net income in accordance with Canadian principles are described in Note 15 to the Consolidated Financial Statements.

Operating Segments

> The following discussion should be read in conjunction with Note 14 to the Consolidated Financial Statements. Segment operating results exclude financing related items, unallocated general and administrative expenses and income taxes.

Yemen

	2000		1999		1998	
	Volume	Amount	Volume	Amount	Volume	Amount
Crude Oil Sales(1) and Prices (mbbls/d and $/bbl)	111.8	$ 40.53	107.4	$ 26.36	105.7	$ 16.92
Net Sales		$ 752		$ 499		$ 399
Operating Profit		$ 593		$ 339		$ 154
Capital Expenditures		$ 113		$ 74		$ 124

Note:

(1) Production volumes were 111.9 mbbls/d (1999 – 107.5 mbbls/d; 1998 – 104.7 mbbls/d). Sales volumes differ from production volumes due to the timing of tanker loadings.

During 2000, production volumes reached 215,200 barrels per day ("bbls/d") (111,900 bbls/d net to the Company) representing growth of four per cent over 1999 levels. Successful results from the 2000 development drilling program led to the increase in volumes. Currently, there are 145 wells capable of production on the Masila Block as compared with 122 wells at the end of 1999. The increase in volumes from 1998 to 1999 is also due to successful development drilling activity.

The average price received for Masila crude oil increased during 2000, consistent with world oil prices. The Company sells its Yemen production under short-term contracts. The differential from WTI to Masila crude was U.S. $2.82 per barrel in 2000 as compared to U.S. $1.48 and U.S. $2.97 in 1999 and 1998, respectively. The differential widened in 2000, reflecting an increased supply of crude of a similar quality in Southeast Asia, the primary market for Masila crude.

Under the terms of the production sharing agreement covering the Masila Block, production is divided into cost recovery oil and profit oil. Cost recovery oil provides for the non-government participants' recovery of operating, exploration and development costs over one, four and six years, respectively, to a maximum of 40 per cent of production during each fiscal year. Profit oil is that portion of production remaining after deducting cost recovery oil and is shared on a sliding scale basis between the Government of Yemen and the participants, based on production rates. The volume of cost recovery oil available each year is dependent upon the costs available for recovery and the price received for each barrel of oil.

Under the Company's accounting policy, the carried interest component of cost recovery oil revenue, from which the Company recovers costs deemed incurred on the government's behalf, is offset by operating costs and depreciation and depletion thereby not contributing to operating profit or net income. As cost recovery oil declines, the related increase in profit oil results in increased operating profit, partially offset by an increase in income taxes paid.

In 2000, the non-government participants in the Masila Block received approximately 33 per cent of the Masila Project's oil production with the balance going to the Government of Yemen. In 1999 and 1998, the non-government participants received approximately 37 and 52 per cent of the production, respectively. Nexen receives 52 per cent of the non-government participants' share of production. The decrease in 2000 is due primarily to a lower volume of cost recovery oil as a result of higher oil prices. The decrease in 1999 is due to lower costs available for recovery, increased oil prices and increased production volumes. Of greatest significance in 1999 was the reduction in costs available for recovery. Significant expenditures were incurred in Yemen for facilities and infrastructure during 1992 and 1993 in order to develop the Masila Block. These costs were fully recovered under the production sharing agreement by the end of 1998. This resulted in a reduction of U.S. $64 million, net to Nexen, in costs available for recovery in 1999. This reduction was offset by higher levels of profit oil and higher crude oil prices, resulting in a 25 per cent increase in net sales. Based on past unrecovered capital expenditures and 2001 budget expenditures, production volumes and prices, the Company estimates that its share of production in 2001 will approximate 2000 levels.

Operating profit in 2000 increased 75 per cent over 1999 levels due to strong crude oil prices and increased crude oil sales volumes. Operating profit in 1999 increased 120 per cent over 1998 levels as a result of higher crude oil prices and increased sales volumes. In addition, reduced depreciation, depletion and amortization expense also contributed to the increase as reduced cost recovery revenues and reserve additions lowered the overall depletion rate per barrel.

Capital expenditures for development activities in Yemen during the past three years relate to drilling and fluid handling facilities on the Masila Block and comprise the majority of the capital investment program. During 1998 and early 1999, Nexen acquired interests in six new exploration blocks to continue to build on our success in Yemen. During 2000, the Company incurred exploration expenditures of $15 million related to a seismic program over some of the blocks. Exploration expenditures were $6 million and $39 million in 1999 and 1998, respectively.

Canada

	2000			1999			1998		
	Volume		Amount	Volume		Amount	Volume		Amount
Crude Oil Sales and Prices (mbbls/d and $/bbl)									
Light	21.3	$	42.08	17.8	$	26.27	24.7	$	18.75
Heavy	32.6	$	28.32	30.5	$	18.28	34.5	$	8.81
Natural Gas Sales and Prices (mmcf/d and $/mcf)	161	$	4.38	161	$	2.46	271	$	1.94
Net Sales		$	698		$	385		$	367
Operating Profit (Loss)		$	294		$	44		$	(99)
Capital Expenditures		$	390		$	170		$	291

In Canada, crude oil production increased 12 per cent over 1999 levels. Production from the Hay Field in British Columbia, which came on-stream in the first quarter, and successful drilling results account for the majority of the increase. Natural gas production volumes remained consistent with 1999 levels. The decrease in crude oil and natural gas production in 1999 compared to 1998 is attributable to Nexen streamlining its asset portfolio in order to focus on those areas with the greatest long-term potential.

Nexen's crude oil and natural gas production is sold under short-term contracts. Crude oil prices are based on various reference prices, primarily the price of WTI. Heavy oil pricing reflects the overall level of oil prices plus quality differentials and condensate costs. The quality differential arises because heavier crudes normally require more processing than light oil. The quality differential between heavy and light crude oil widened during 2000 as there was limited refinery capacity available to process the incremental heavy oil production. During 2000, 79 per cent of natural gas production sold was based on Alberta and NYMEX spot pricing. Prices realized for natural gas production in 2000 increased over 1999 and 1998 as a result of higher spot prices.

Net sales for crude oil and natural gas increased in 2000 as a result of higher commodity prices and increased production levels. Increased production levels also resulted in higher depletion expense and operating costs in 2000. Net sales and operating profit in 1999 exceeded 1998 levels as higher crude oil prices more than offset the impact of reduced production volumes.

During 2000, capital expenditures totalled $390 million, more than double 1999 levels. This increase was the result of strong commodity prices which accelerated the capital program. Approximately 83 per cent of capital expenditures were directed at development activities as compared to 82 per cent in 1999. Current year's development activities focused on bringing the Hay Field on-stream and accelerating development projects to increase production rates and take advantage of a very favourable price environment. These projects included the drilling and tie-in of 252 natural gas wells, 137 heavy oil wells and 103 conventional oil wells. Capital expenditures also include the acquisition of producing properties in Canada for a total cost of $28 million. Capital expenditures in 1999 were lower than 1998 levels as a result of weak crude oil prices early in 1999.

United States

	2000		1999		1998	
	Volume	Amount	Volume	Amount	Volume	Amount
Crude Oil Sales and Prices (mbbls/d and $/bbl)	11.1	$ 44.18	10.3	$ 26.51	12.1	$ 19.03
Natural Gas Sales and Prices (mmcf/d and $/mcf)	113	$ 6.90	117	$ 3.45	115	$ 3.25
Net Sales		$ 382		$ 203		$ 183
Operating Profit (Loss)		$ 123		$ (2)		$ –
Capital Expenditures		$ 228		$ 94		$ 230

Crude oil production volumes in 2000 increased eight per cent over 1999 levels due to improved reservoir performance and successful development drilling. In 1999, crude oil volumes were down compared to 1998 volumes, reflecting natural declines. Natural gas production volumes during 2000 were comparable with 1999 and 1998 levels.

Prices received are consistent with fluctuations in world crude oil prices and the NYMEX natural gas price as the majority of production is sold under short-term contracts.

Net sales in 2000 increased 88 per cent over 1999 as a result of strong commodity prices and increased crude oil volumes. Operating profit was also higher although the increase in net sales was partially offset by higher exploration expense. The increased exploration expense reflects a significant increase in exploration activity including three-dimensional seismic programs and exploratory drilling. Net sales increased in 1999 as increased commodity prices offset the reduction in oil volumes. The operating loss in 1999 was a result of increased amortization on undeveloped acreage acquired in 1998 and increased exploration expense. Two unsuccessful exploration wells were drilled in 1999, including one well in the deep waters of the Gulf of Mexico.

During 2000, Nexen invested $228 million in the Gulf of Mexico, of which 63 per cent was spent on exploration activities and the remaining 37 per cent on development activities. Nexen's exploration activities in the Gulf of Mexico have expanded to include drilling for oil and gas reserves in the deep waters of the Gulf. These wells target larger reserves but are also of higher risk and cost than exploration wells in the shallow waters of the Gulf. During 2000, eight exploration wells were drilled, including three in the deep water. The drilling program resulted in four discoveries, including Nexen's first deep-water discovery. The Gunnison deep-water exploration well was drilled to a total depth of 17,000 feet and resulted in an oil discovery. Further work is currently being done to assess the commerciality of the prospect. In addition, there were three smaller discoveries in the shallow water. Development expenditures during 2000 were focused on the exploitation of existing fields.

During 1999, Nexen invested $94 million in the Gulf of Mexico, of which 61 per cent was spent on development activities. Exploration expenditures in 1999 were focused on drilling and the acquisition of seismic data. Capital expenditures in 1998 included $45 million for the acquisition of a 90 per cent working interest in Eugene Island Block 18 and $53 million for the purchase of undeveloped acreage in the deep waters of the Gulf.

Australia

	2000		1999		1998	
	Volume	Amount	Volume	Amount	Volume	Amount
Crude Oil Sales and Prices (mbbls/d and $/bbl)	11.2	$ 41.05	–	$ –	–	$ –
Net Sales		$ 167		$ –		$ –
Operating Profit (Loss)		$ 30		$ (15)		$ (51)
Capital Expenditures		$ 22		$ 115		$ 67

Crude oil production commenced from the Company's 50 per cent interest in the Buffalo Field, offshore Australia, in late 1999. During 1999, development drilling and construction of facilities for the Buffalo Field were completed. Buffalo is a prolific field which produces high-quality crude oil which commands a high price. The field is expected to deplete by the end of 2002. After initial production rates of 20,000 bbls/d, crude oil production declined during the year, in part due to mechanical problems which caused one of two wells to be shut in. Production rates averaged 12,000 bbls/d for the year and have stabilized at 8,000 bbls/d, net to the Company's interest.

In late December, the Company acquired the remaining 50 per cent interest in the Buffalo Field. The acquisition had an effective date of September 1, 2000.

The Company also holds interests in six exploration blocks covering over six million acres. Capital expenditures in 2000 relate primarily to drilling two unsuccessful exploration wells on two of these blocks. Capital expenditures for 1999 and 1998 relate to exploration and development of the Buffalo Field. Operating losses in 1999 and 1998 relate to unsuccessful exploratory drilling.

North Sea

Nexen's oil and gas assets in the United Kingdom sector of the North Sea were sold effective December 31, 1998, for proceeds of $210 million. A pre-tax gain of $101 million was recorded on the disposition.

Other Countries

Net sales relate to producing properties in Nigeria and Ecuador. During 2000, as part of the share repurchase transaction, Nexen exchanged its 15 per cent interest in oil and gas assets in Ecuador for Occidental's 15 per cent minority interest in the Company's chemicals operations. This transaction resulted in a pre-tax gain of $18 million. The operating loss in 1998 includes an impairment charge of $40 million for Nigeria.

Nexen pursues a diversified portfolio of exploration opportunities as part of its long-term growth strategy. Exploration expense for 2000, 1999 and 1998 includes activities related to the acquisition of seismic data, unsuccessful exploratory drilling and business development activities. In 2000, efforts were focused on Colombia, Nigeria and Indonesia. In Colombia, an oil and gas discovery was made on the Boquerón Block in Colombia's Upper Magdalena Basin. Four wells were drilled and three-dimensional seismic was collected over the Guando Field in order to evaluate the reserve potential. In Nigeria three-dimensional seismic was acquired on two offshore blocks, and expenditures in Indonesia resulted in an unsuccessful exploration well. During 1999, exploration expense consisted primarily of an unsuccessful exploration well in Colombia and the acquisition of seismic data in Indonesia. During 1998, exploration expense consisted primarily of unsuccessful wells in Indonesia.

Syncrude Joint Venture

	2000		1999		1998	
	Volume	Amount	Volume	Amount	Volume	Amount
Synthetic Crude Oil Sales and Prices (mbbls/d and $/bbl)	14.7	$ 44.84	16.1	$ 28.12	15.2	$ 20.77
Net Sales		$ 199		$ 162		$ 115
Operating Profit		$ 89		$ 74		$ 27
Capital Expenditures		$ 37		$ 54		$ 36

Nexen owns a 7.23 per cent interest in the Syncrude Joint Venture. Production volumes for the year were nine per cent below 1999 levels. The decrease resulted from an unscheduled plant turnaround to address mechanical problems and other operational issues. Strong crude oil prices more than offset the impact of lower volumes, increasing net sales 23 per cent over 1999 levels. As a result of higher prices, the net profits interest payment to the Province of Alberta increased to 17 per cent, up from two per cent in 1999 and nil in 1998. Operating costs also increased in 2000 as a result of increased plant maintenance and turnaround costs as discussed above.

Capital expenditures decreased in 2000 as construction of the Aurora mine was completed. During 2000, Nexen contributed $16 million towards the construction of the mine compared to $25 million in 1999. The mine commenced operations in mid-2000.

Marketing

Nexen's marketing operation markets proprietary and third-party natural gas and crude oil. During 2000, the marketing operation marketed an average of 1.9 billion cubic feet of natural gas per day, compared to 1.8 billion cubic feet per day during 1999. The operation also marketed 393,000 barrels of crude oil per day during 2000, compared to 373,000 barrels per day in 1999. The increase in the marketing of crude oil is a result of the acquisition of Northridge Energy Marketing Ltd. ("Northridge") during 2000. Approximately 11 per cent and 30 per cent of the daily natural gas and crude oil marketed relate to the Company's proprietary production.

Effective July 31, 2000, Nexen acquired Northridge for $39 million. Northridge's strength in the marketing of light crude oil complements the marketing operation's heavier crude oil product lines and allows the marketing operation to offer refiners a single source of supply to meet all their throughput needs. The acquisition of Northridge increased marketing volumes by 44,000 bbls/d for crude oil on average during 2000.

Nexen's marketing operation carries out various natural gas and crude oil marketing activities to enhance price realizations from the sale of Nexen's proprietary and third-party crude oil and natural gas production and for energy trading purposes. The marketing operation enters into contracts to purchase and sell crude oil and natural gas. This exposes the Company to commodity price risk between the time contracted volumes are purchased and sold. The marketing operation actively manages this risk by utilizing energy-related futures, forwards, swaps and options. Open positions exist where not all contracted purchases and sales have been matched in order to take advantage of market movements. The extent of exposure under these activities is restricted to prescribed limits and is monitored using a daily value-at-risk calculation as described under the heading "Market Risks – Commodity Price Risk". Net revenue from these activities, including the related derivative financial instruments, was $48 million in 2000. This compares to $28 million and $34 million in 1999 and 1998, respectively.

Consistent with the Company's intention and management practices with respect to the revenues to be derived from its energy trading activities, all energy contracts are marked to market with the associated gains and losses recorded on a net basis and included in marketing, interest and other income in the Consolidated Statement of Income. Related accounts receivable and accounts payable are recorded in the Consolidated Balance Sheet on a gross basis reflecting the full extent of Nexen's exposure to credit risk and its obligations.

Chemicals

	2000	1999	1998
Production (thousand short tons)			
Sodium chlorate	462	404	399
Chlor-alkali(1)	395	330	340
Sales (thousand short tons)			
Sodium chlorate	462	404	399
Chlor-alkali(1)	407	340	313
Sales	$ 305	$ 240	$ 258
Operating Profit	$ 39	$ 20	$ 54
Capital Expenditures	$ 31	$ 18	$ 17

Note:

(1) Sales volumes differ from production volumes due to the use of chlorine in the production of muriatic acid and changes in inventory levels.

Nexen manufactures sodium chlorate and chlor-alkali (caustic soda, chlorine and muriatic acid) in Canada and Brazil and sodium chlorate in the United States. Sodium chlorate and caustic soda manufactured in North America are primarily sold to the North American pulp and paper industry, while chlorine is sold to the pulp and paper, water treatment and PVC industries. The majority of the Company's sodium chlorate and chlor-alkali production in Brazil is sold, under a long-term contract, to a major pulp and paper manufacturer in Brazil.

Sodium chlorate and chlor-alkali sales volumes increased in 2000 as a result of the addition of production in Brazil and strong demand for sodium chlorate and chlor-alkali products. Increased volumes and higher product prices resulted in increased sales for 2000. Sales in 1999 were less than 1998 despite volume increases as lower operating rates in the pulp and paper industry and increasing supply eroded prices.

Operating profit increased in 2000 primarily as a result of higher product prices and the addition of production in Brazil. These increases were partially offset by increased operating costs related to higher costs for electricity and natural gas. Operating profit in 1999 was lower than 1998 due to lower product prices and increased electricity costs.

Consolidated Results of Operations

> Net Sales

The increase in net sales was attributable to the following:

		2000 vs. 1999	1999 vs. 1998
Crude Oil	Price	$ 548	$ 282
	Volume	210	11
	Yemen cost recovery, net of increased profit oil	–	(51)
Natural Gas	Price	205	16
	Volume	(6)	(88)
Chemicals	Price	33	(27)
	Volume	32	9
Other		41	19
Increase in net sales over prior year		$ 1,063	$ 171

Gain on Disposition of Assets

Gains in 2000 relate to the exchange of Nexen's 15 per cent interest in oil and gas assets in Ecuador for Occidental's 15 per cent minority interest in the Company's chemicals operations and the disposition of non-core assets in Canada. In 1999, the gains related primarily to the disposition of producing properties in Canada. In 1998, the gains related to the disposition of the Company's oil and gas assets in the United Kingdom sector of the North Sea and producing properties and undeveloped land in Canada.

Marketing, Interest and Other Income

Marketing, interest and other income consists of net revenue from marketing activities, interest income and non-recurring income items. The increase of $32 million in 2000 as compared with 1999 resulted primarily from an increase in net revenue from marketing activities and an increase in interest income. The decrease in 1999 as compared with 1998 was due to a loss of pipeline tariff revenue from the sale of the North Sea assets and a reduction in net revenue from marketing activities.

Operating and Other

Operating costs for conventional oil and gas activities increased $57 million or 24 per cent over 1999 levels primarily as a result of higher production rates. On a barrel of oil equivalent basis, conventional production costs were $3.42 as compared to $2.94 in 1999 and $3.13 in 1998. The increase in 2000 relates to the addition of production in Australia, where operating costs averaged $6.92 per barrel. The decrease in 1999 compared to 1998 is due to the implementation of cost reduction initiatives and the disposition of high-cost properties.

Chemicals operating costs increased over 1999 as a result of increased sales and higher electricity and natural gas costs. The increase in 1999 over 1998 was due to higher electricity costs and increased maintenance at the plant sites.

General and Administrative

General and administrative expenses increased $7 million over 1999. This increase is due to the significantly larger capital program in 2000, which required increased resources in order to support this level of activity. In 1999, staff levels were reduced and cost reduction initiatives implemented in response to record low crude oil prices.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization increased by $133 million compared with 1999 as a result of increased oil and gas production rates and a higher overall unit depletion rate. On a per barrel of oil equivalent basis, the depletion rate for conventional oil and gas properties was $6.67 per barrel of oil equivalent, as compared to $5.79 in 1999 and $6.90 in 1998. The majority of the increase relates to Australia which began producing in late 1999 at a higher rate per barrel than the Company average. The decrease in 1999 compared with 1998 was due to lower cost recovery pools in Yemen, reserve additions, and asset dispositions in Canada.

Exploration Expense

	2000	1999	1998
Seismic	$ 74	$ 37	$ 45
Unsuccessful Drilling	54	57	90
Other	45	42	52
	$ 173	$ 136	$ 187

Nexen's growth strategy includes the exploration for new sources of reserves and production from the Company's portfolio of exploration opportunities worldwide. These opportunities include low-risk exploration projects in Canada and the shallow waters of the Gulf of Mexico, and higher risk prospects in Yemen, Nigeria, Indonesia, Colombia, Australia and the deep waters of the Gulf of Mexico. In response to higher commodity prices, Nexen increased its exploration program in 2000. The increase in exploration expense reflects a significant increase in seismic expenditures in Colombia, Nigeria and the United States as the Company prepares for a large 2001 exploratory drilling program. Dry hole costs were consistent with 1999 even though exploration capital increased 108 per cent over 1999 levels. Successful exploratory drilling in Colombia, the deep waters of the Gulf of Mexico and Canada helped to keep dry hole costs at 1999 levels. The decrease in exploration expense in 1999 relative to 1998 reflects a significantly reduced exploration program.

Interest Expense

Interest expense increased from 1999, reflecting the impact of increased levels of indebtedness during 2000. Interest expense in 1999 was lower than 1998, reflecting the impact of reduced levels of indebtedness associated with the sale of producing properties, the issuance of preferred securities and increased cash flows from operating activities.

At December 31, 2000, Nexen had fixed the interest rates for varying periods on 72 per cent of its long-term debt at an effective rate of 7.2 per cent.

Provision for Income Taxes

The effective tax rate was 40 per cent in 2000. This rate is less than the Canadian statutory rate of 44 per cent due to the high proportion of earnings from foreign operations that are taxed at lower rates. The effective rate decreased from the 1999 rate of 64 per cent as a result of the adoption of the new recommendations for accounting for income taxes. On January 1, 2000, Nexen adopted the liability method of accounting for income taxes. Under the previous method, acquired assets without tax basis would result in non-deductible depletion which increases a company's effective rate. The 1999 and 1998 effective tax rates reflected the non-tax deductibility of a portion of depletion expense. Additional information regarding the variations from the expected tax rate is provided in Note 12 to the Consolidated Financial Statements.

Current income taxes in 2000 primarily relate to Yemen. In addition, alternative minimum tax was paid in the United States and federal and provincial capital taxes were paid in Canada.

Dividends on Preferred Securities

Nexen issued preferred securities in the amount of U.S. $259 million and U.S. $217 million in October 1998 and February 1999, respectively. The increase in dividends on preferred securities during 1999 as compared with 1998 is due to the securities being outstanding for a full year and the issuance of preferred securities in 1999.

Liquidity and Capital Resources

> Cash generated from operating activities in 2000 was $1,329 million, compared with $716 million and $696 million in 1999 and 1998, respectively. Cash generated from operating activities in 2000 benefited greatly from very strong crude oil and natural gas prices. Increased production volumes over 1999 levels also increased cash flows. This increase was partially offset by increased working capital requirements as a result of higher commodity prices and production rates. In addition, increased marketing activities including higher levels of natural gas in storage at year end contributed to higher working capital requirements. The Company sold accounts receivable in the amounts of $63 million, $120 million and $115 million at December 31, 2000, 1999 and 1998, respectively. These sales advance the collection of non-interest bearing receivables and the proceeds are used to reduce interest-bearing obligations.

Investing activities used cash of $897 million as compared to $396 million in 1999 and $592 million in 1998. During 2000, the Company increased its capital investment program to $954 million to take advantage of strong commodity prices and to pursue its exploration opportunities. This represents a 36 per cent increase over the 1999 capital program. Investing activities in 1999 included the collection of $210 million in proceeds from the late 1998 disposition of Nexen's investment in the United Kingdom sector of the North Sea. During 1998, investing activities reflected a significant disposition program that focused on streamlining the Company's oil and gas portfolio.

During 2000, the Company repurchased almost 15 per cent of its outstanding common shares for cancellation. The Company entered into an agreement whereby Occidental would sell its 29 per cent interest in Nexen. Under the terms of the agreement, Teachers purchased 20.2 million common shares of the Company. Nexen repurchased 20 million of its common shares for proceeds of $605 million.

During 2000, cash generated from operating activities was used to fund substantially all of the capital investment program and the share repurchase. The shortfall was financed with short-term borrowings and long-term debt. This shortfall primarily resulted from an increase in working capital requirements at year end. Record high natural gas prices in December contributed to a significant increase in trade receivables for the marketing operation as well as significantly increased inventory values related to natural gas in storage at year end.

Long-term debt at December 31, 2000 includes $75 million which is scheduled for repayment in 2001. The Company intends to refinance the amount due in 2001 through existing, committed, long-term facilities and, accordingly, such amounts are not included in current liabilities.

During 1999, the Company issued U.S. $225 million of five-year, 7.125 per cent notes and U.S. $217 million of 49-year, 9.375 per cent preferred securities. The preferred securities mature in 49 years and provide a solid base of fixed-rate financing with tax-deductible interest payments. They are callable in five years, providing the Company with significant flexibility to respond to changes in interest rates and commodity prices. Further flexibility is provided from features which allow the Company to defer interest payments for up to five years and to settle the deferred interest payments or principal by issuing common shares.

Nexen continues to maintain significant financial flexibility. At December 31, 2000, Nexen had unused committed credit facilities of $1,120 million and undrawn short-term operating loan facilities of $192 million with various major banks. In addition, Nexen has two existing shelf prospectuses, one in Canada for $500 million and one in the United States for U.S. $500 million. Both of these shelf prospectuses expire in June 2001.

The Company's future debt level is primarily dependent on cash generated from operating activities and its capital investment program. At an assumed price of U.S. $25 per barrel for WTI during 2001, the Company believes that cash generated from operating activities will be sufficient to fund its capital program of approximately $1.3 billion and meet financial obligations as they become due. The Company believes that it has sufficient committed borrowing capacity to meet unanticipated cash requirements.

The Company declared common share dividends of $0.30 per common share in each of the years 2000, 1999 and 1998.

Foreign Investments

> Portions of Nexen's assets are located in countries outside North America, and can be impacted by changing economic, regulatory and political environments in the various countries in which it operates. It is Nexen's policy to conduct its business so as to minimize its exposure to such risks. At December 31, 2000, the carrying value of Nexen's identifiable assets in countries outside North America totalled approximately $804 million or 14 per cent of the Company's total assets.

The United States dollar is the functional currency of most of the Company's foreign operations. Capital expenditures, operating costs and revenues earned in these foreign locations are principally transacted in United States dollars. The Company has no material exposure to highly inflationary foreign currencies. In addition, there are no restrictions on accessing cash generated in any foreign operation.

Market Risks

> In the normal course of its business, the Company is exposed to a variety of market risks, including fluctuations in commodity prices, foreign currency exchange rates and interest rates. The Company recognizes these risks and manages its operations in a manner intended to minimize its exposure to the extent practical, and to a lesser extent through the periodic use of derivative instruments. The Company's financial risk profile at December 31, 2000 and its management thereof is described in Note 6 to the Consolidated Financial Statements.

Nexen has formal written policies relating to the use of derivative instruments. The exposure relating to outstanding derivative instruments held in connection with marketing activities is restricted to prescribed limits and is monitored using a daily value-at-risk ("VAR") calculation. The use of derivative instruments for other purposes must be approved by the Chief Executive Officer and, in excess of prescribed limits, by the Board of Directors. The Finance Committee of the Board of Directors and the Company's Risk Management Committee monitor Nexen's exposure to the above risks and review the results of derivative activities and all outstanding positions on a regular basis.

Commodity Price Risk

Nexen's most significant market risk exposure relates to the prices received for its crude oil production and to a lesser extent for its natural gas production. Prices received for crude oil and natural gas are impacted in varying degrees by factors outside the Company's control. Crude oil prices are influenced by worldwide factors such as OPEC actions, political events and supply and demand fundamentals. In addition, quality differential price adjustments are influenced by local market supply and demand fundamentals. Natural gas prices are generally influenced by local market supply and demand fundamentals, although Canadian and United States markets are now more closely linked as new export capacity has been added in Canada. The majority of the Company's production is sold under short-term contracts thereby exposing Nexen to short-term price movements. As described in Note 6 to the Consolidated Financial Statements, Nexen may occasionally use derivative instruments in its management of such risks.

Based on the results of operations, production levels and the Canadian to United States dollar exchange rate for the year ended December 31, 2000, a U.S. $1.00 per bbl decrease in crude oil prices would have decreased net income by approximately $45 million, and a U.S. $0.50 per mcf decrease in North American natural gas prices would have decreased net income by approximately $40 million.

During December 2000 and subsequent to year end, the Company purchased crude oil put option contracts in order to mitigate the impact of potential crude oil price declines. The effect of the put options will be to provide a minimum price ranging from U.S. $20 to U.S. $22 per barrel for all hedged volumes if the West Texas Intermediate crude oil price averages less than the strike price for the contract period. The put options cover 70,000 barrels of daily oil production for a contract period of one year. See Note 6 to the Consolidated Financial Statements for additional information related to these positions.

Nexen's marketing activities also expose the Company to commodity price risk. The exposure is managed by generally matching contracted purchases and sales, and through the use of derivative instruments comprising futures, forwards, swaps and options. The extent of exposure is restricted to prescribed limits and is monitored using a daily VAR calculation. The Company's VAR calculation estimates the maximum probable loss, given a 95 per cent confidence level, that the Company would incur if it were to unwind its outstanding positions over a two-day time period.

At December 31, 2000, the VAR for marketing activities was $13 million and ranged from a low of $2 million to a high of $13 million during 2000. Although VAR is a reasonable measure of exposure, it does not represent the maximum possible loss, nor is it necessarily indicative of actual results which may occur.

Foreign Currency Rate Risk

A substantial portion of Nexen's operations is exposed to short-term fluctuations in the Canadian to United States dollar exchange rate. Revenues, expenses and capital expenditures of operations outside Canada are principally denominated in United States dollars. In addition, prices received for sales of crude oil, natural gas and a portion of chemicals products are referenced to United States dollar denominated prices. Nexen also has the ability to borrow on a short-term and long-term basis in United States dollars. Nexen's net investments in operations outside Canada are exposed to longer-term fluctuations in the exchange rate.

The Company manages its exposure to exchange rate fluctuations by generally matching United States dollar denominated cash inflows with similarly denominated cash requirements. Since the timing of cash inflows and outflows is not necessarily interrelated, particularly regarding capital expenditures, Nexen maintains revolving United States dollar borrowing facilities which can be utilized or repaid depending on the net cash flows. In addition, Nexen maintains long-term United States dollar denominated borrowings which it designates as a hedge against its net investments in foreign operations. Nexen occasionally utilizes derivative instruments to effectively convert future cash flows from Canadian to United States dollars or vice versa. Information regarding Nexen's foreign currency net investments, borrowings and related derivative instruments are provided in Note 6 to the Consolidated Financial Statements.

Based on the foreign exchange rate, results of operations, and levels of production and borrowings at and for the year ended December 31, 2000, a one cent increase in the Canadian to United States dollar exchange rate would have decreased net income by approximately $10 million.

Interest Rate Risk

Nexen is exposed to fluctuations in short-term interest rates as a result of the use of floating rate debt and, to a lesser extent, the use of derivative instruments as their market value is sensitive to interest rate fluctuations. The Company maintains a portion of its debt capacity in revolving, floating rate bank facilities with the remainder issued in fixed rate borrowings. To minimize its exposure to interest rate fluctuations, the Company occasionally uses derivative instruments as described in Note 6 to the Consolidated FInancial Statements.

At December 31, 2000, the Company had $68 million of short-term borrowings and $430 million of floating rate long-term debt.

Based on Nexen's floating rate long-term debt, short-term borrowings and derivative instruments at December 31, 2000, a one per cent increase in interest rates would have decreased net income by approximately $4 million.

Environmental Expenditures

> The Company's worldwide operations are subject to increasingly stringent government laws and regulations. These laws and regulations generally require the Company to remove or remedy the effect of its activities on the environment at present and former operating sites, including dismantling production facilities and remediating damage caused by the disposal or release of specified substances. The Company operates in a manner intended to ensure that its projects around the world meet appropriate environmental standards and believes that its operations comply in all material respects with applicable environmental regulations.

Nexen has received orders under the *British Columbia Waste Management Act* to conduct a comprehensive remediation program including soil and ground water remediation with respect to its former chlor-alkali plant site at Squamish, British Columbia. In May 2000, Nexen submitted a remediation plan which detailed how and when the various contamination issues would be dealt with. The plan was well received and all major issues have been approved. The orders are within the scope of contemplated and accrued environmental remediation requirements for the former plant site and do not constitute a fine or penalty upon the Company.

At December 31, 2000, $161 million has been provided in the accounts for future dismantlement and site restoration costs which are currently estimated to be approximately $395 million for all of Nexen's oil and gas and chemicals facilities. The Company periodically performs internal and external assessments of its operations and adjusts its estimate and annual provision accordingly. During 2000, Nexen recorded a provision for future dismantlement and site restoration costs of $37 million (1999 – $25 million; 1998 – $22 million). Actual capital expenditures for the year amounted to $24 million (1999 – $10 million; 1998 – $11 million). It is anticipated that actual capital expenditures in 2001 will approximate 2000 levels.

New Accounting Pronouncements

> On January 1, 2001, Nexen adopted Financial Accounting Standards Board Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities", as modified by Statement No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities" ("FAS 133"). FAS 133 requires the Company to recognize all derivative instruments on the balance sheet as either an asset or a liability measured at fair value. Changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met. Changes in the fair value of derivatives that are designated as hedges are recognized in earnings in the same period as the hedged item. FAS 133 requires that a company formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The adoption of FAS 133 on January 1, 2001, does not have a material impact on the consolidated financial position or the results of operations of the Company.

Outlook

> During 2001, Nexen expects its production to increase by approximately six per cent to 272,000 boe/d. Oil production is anticipated to average 220,000 bbls/d, up five per cent from 2000, while natural gas production volumes are expected to average 312 mmcf/d, a 14 per cent increase as compared with 2000. Actual production rates in 2001 will depend upon numerous factors including commodity prices, the level of capital expenditures, drilling success and the availability of transportation.

Capital expenditures in 2001 will ultimately be dependent upon crude oil prices. At an assumed price of U.S. $25.00 per barrel for WTI, cash generated from operating activities will be sufficient to fund a capital program of approximately $1.3 billion and pay dividends. The actual amount of debt repaid and capital expenditures will vary in 2001 depending on crude oil prices and other related economic factors.

During 2001, 91 per cent of capital expenditures are budgeted for oil and gas activities. Approximately 67 per cent of oil and gas expenditures relate to development activities while the remaining 33 per cent will be directed at exploration activities. Development expenditures are budgeted primarily for projects in Canada, Yemen, the Gulf of Mexico, Nigeria, Colombia, and at Syncrude. Exploration expenditures in 2001 will be focused on acquiring seismic and drilling in Canada, Yemen, the Gulf of Mexico, Nigeria, Australia, Colombia and Indonesia. The exploration program budgeted for 2001 is the largest in the history of the Company. The level of success of this program could significantly impact earnings in 2001.

Special Note Regarding Forward-Looking Statements

> Certain statements in this annual report, including those appearing under the captions "Letter to Shareholders", "Operations Review", "High-Potential Growth" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", constitute "forward-looking statements" within the meaning of the United States *Private Securities Litigation Reform Act of 1995*, Section 21E of the United States *Securities Exchange Act of 1934*, as amended, and Section 27A of the United States *Securities Act of 1933*, as amended. Such statements are generally identifiable by the terminology used such as "plan", "potential", "expect", "estimate", "budget" or other similar words.

The forward-looking statements are subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include, among others: market prices for oil and gas and chemicals products; the ability to produce and transport crude oil and natural gas to markets; the results of exploration appraisal and development drilling and related activities; foreign currency exchange rates; economic conditions in the countries and regions in which the Company carries on business; actions by governmental authorities including increases in taxes, changes in environmental and other regulations, and renegotiations of contracts; political uncertainty, including actions by insurgent groups or other conflict. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are interdependent upon other factors, and Management's course of action would depend upon its assessment of the future considering all information then available. In that regard, any statements as to future crude oil, natural gas or chemical prices and production levels, cost recovery oil revenues and the Company's share of production from operations in Yemen, capital expenditures, the allocation of capital expenditures to exploration and development activities, sources of funding for its capital program, drilling and tie-in of new wells, production rates, recovery of reserves, plant expansions, demand for chemical products, expenditures and allowances relating to environmental matters, dates by which certain areas will be developed or will come on-stream, dates by which transactions are expected to close, cash flows, debt levels, dividends, sensitivities to commodity prices and changes in any of the foregoing are forward-looking statements, and there can be no assurance that the expectations conveyed by such forward-looking statements will in fact be realized.

Although the Company believes that the expectations conveyed by the forward-looking statements are reasonable based on information available to it on the date such forward-looking statements were made, no assurances can be given as to future results, levels of activity and achievements. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

FINANCIAL AND OTHER INFORMATION

Management's Report

> The Management of Nexen Inc. is responsible for the integrity of its reported financial data. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements in accordance with generally accepted accounting principles in Canada. Management uses internal accounting controls, offers guidance through corporate-wide policies and procedures including a written ethics and integrity policy, and exercises its best judgement in order that such statements present fairly the consolidated financial position, results of operations and cash flows of Nexen. Financial information contained throughout this annual report has been reviewed to ensure consistency with that in the Consolidated Financial Statements.

In order to gather and control financial data, Nexen has established accounting and reporting systems supported by internal controls and an internal audit program. Management believes that the existing internal controls provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that the records are reliable for preparing consolidated financial statements and other data, and maintaining accountability for assets.

Nexen's Board of Directors has approved the Consolidated Financial Statements and fulfills its responsibility regarding the financial statements mainly through its Audit and Conduct Review Committee. The Committee is composed of Directors who are not employees of Nexen. The Committee meets regularly with Management, and with the internal and external auditors, to discuss reporting and control issues to ensure each party is properly discharging its responsibilities, and to review the Consolidated Financial Statements. The Committee also considers the independence of the external auditors.

Arthur Andersen LLP, an independent firm of chartered accountants, was appointed by a vote of shareholders at the Company's last annual meeting to audit the consolidated financial statements, and to provide an independent professional opinion thereon.

Victor J. Zaleschuk
President and Chief Executive Officer
January 22, 2001

Marvin F. Romanow
Senior Vice President, Finance and Chief Financial Officer

Auditors' Report

> To the Shareholders of Nexen Inc.:

We have audited the consolidated balance sheet of Nexen Inc. as at December 31, 2000 and 1999 and the consolidated statements of income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada and the United States. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in accordance with generally accepted accounting principles in Canada.

Arthur Andersen LLP

Calgary, Alberta
January 22, 2001

Arthur Andersen LLP
Chartered Accountants

Consolidated Statement of Income

For the three years ended December 31, 2000

(millions except per share data)	2000	1999	1998
Revenues			
Net Sales	$ 2,674	$ 1,611	$ 1,440
Gain on Disposition of Assets	42	26	135
Marketing, Interest and Other Income	89	57	75
	2,805	1,694	1,650
Costs and Expenses			
Operating and Other	707	534	568
General and Administrative	117	110	128
Depreciation, Depletion and Amortization	667	534	713
Exploration	173	136	187
Interest, Net (Note 7)	132	106	148
	1,796	1,420	1,744
Income (Loss) Before Income Taxes	1,009	274	(94)
Provision for Income Taxes (Note 12)	407	174	16
Net Income (Loss)	602	100	(110)
Dividends on Preferred Securities, Net of Income Taxes (Note 8)	37	37	4
Net Income (Loss) Attributable to Common Shareholders	$ 565	$ 63	$ (114)
Net Income (Loss) Per Common Share (Note 9)	$ 4.52	$ 0.46	$ (0.83)

See accompanying notes to Consolidated Financial Statements.

Consolidated Balance Sheet
December 31, 2000 and 1999

(millions)	2000	1999
Assets		
Current Assets		
Cash and Short-Term Investments	$ 110	$ 93
Accounts Receivable (Note 3)	1,080	418
Inventories and Supplies (Note 4)	262	121
Prepaid Expenses	15	18
Total Current Assets	1,467	650
Property, Plant and Equipment (Note 5)	3,582	3,409
Future Income Tax Assets (Note 12)	474	–
Deferred Charges and Other Assets	28	46
	$ 5,551	$ 4,105
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-Term Borrowings (Note 7)	$ 68	$ 9
Accounts Payable and Accrued Liabilities	1,190	609
Accrued Interest Payable	21	22
Dividends Payable	9	10
Total Current Liabilities	1,288	650
Long-Term Debt (Note 7)	1,523	1,308
Future Income Tax Liabilities (Note 12)	1,072	108
Dismantlement and Site Restoration Allowance	161	145
Other Deferred Credits and Liabilities	47	48
Minority Interest	–	48
Shareholders' Equity (Note 8)		
Preferred Securities	724	724
Common Shares, no Par Value		
Authorized: Unlimited		
Outstanding: 2000 – 119,854,998 shares; 1999 – 138,145,237 shares	350	358
Contributed Surplus	–	14
Retained Earnings	323	666
Cumulative Foreign Currency Translation Adjustment	63	36
Total Shareholders' Equity	1,460	1,798
Contingencies (Note 10)		
	$ 5,551	$ 4,105

Approved on Behalf of the Board:

Director

David A Hentschel

Director

See accompanying notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the three years ended December 31, 2000

(millions)	2000	1999	1998
Operating Activities			
Net Income (Loss)	$ 602	$ 100	$ (110)
Charges and Credits to Income not Involving Cash (Note 13)	794	544	523
Exploration Expense	173	136	187
Changes in Non-Cash Working Capital (Note 13)	(243)	(64)	92
Other	3	–	4
	1,329	716	696
Financing Activities			
Proceeds from Long-Term Debt	2,467	832	1,269
Repayment of Long-Term Debt	(2,284)	(865)	(2,138)
Net Proceeds from (Repayment of) Short-Term Borrowings	59	(392)	356
Dividends on Preferred Securities	(68)	(65)	(6)
Dividends on Common Shares	(37)	(41)	(41)
Issue of Preferred Securities, Net (Note 8)	–	314	369
Issue of Common Shares	45	15	18
Repurchase of Common Shares (Note 8)	(605)	–	–
Changes in Non-Cash Working Capital (Note 13)	(2)	(65)	–
Other	(2)	(7)	(7)
	(427)	(274)	(180)
Investing Activities			
Capital Expenditures			
Exploration, Development and Other	(880)	(604)	(894)
Proved Property Acquisitions	(35)	(8)	(56)
Acquisitions (Note 2)	(39)	(91)	–
Proceeds on Disposition of Assets	42	85	533
Changes in Non-Cash Working Capital (Note 13)	42	250	(186)
Other	(27)	(28)	11
	(897)	(396)	(592)
Effect of Exchange Rate Changes on Cash and Short-Term Investments	12	–	2
Increase (Decrease) in Cash and Short-Term Investments	17	46	(74)
Cash and Short-Term Investments – Beginning of Year	93	47	121
Cash and Short-Term Investments – End of Year	$ 110	$ 93	$ 47

See accompanying notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

For the three years ended December 31, 2000

(millions)	Preferred Securities (Note 8)	Common Shares (Note 8)	Contributed Surplus	Retained Earnings	Cumulative Foreign Currency Translation Adjustment
December 31, 1997	$ –	$ 325	$ 14	$ 813	$ 98
Issue of Preferred Securities	399	–	–	–	–
Exercise of Stock Options	–	3	–	–	–
Issue of Common Shares	–	15	–	–	–
Loss	–	–	–	(110)	–
Dividends on Preferred Securities, Net of Income Taxes	–	–	–	(4)	–
Issue Costs of Preferred Securities, Net of Income Taxes	–	–	–	(7)	–
Dividends on Common Shares	–	–	–	(41)	–
Translation Adjustment	–	–	–	–	(46)
December 31, 1998	399	343	14	651	52
Issue of Preferred Securities	325	–	–	–	–
Exercise of Stock Options	–	3	–	–	–
Issue of Common Shares	–	12	–	–	–
Net Income	–	–	–	100	–
Dividends on Preferred Securities, Net of Income Taxes	–	–	–	(37)	–
Issue Costs of Preferred Securities, Net of Income Taxes	–	–	–	(7)	–
Dividends on Common Shares	–	–	–	(41)	–
Translation Adjustment	–	–	–	–	(16)
December 31, 1999	724	358	14	666	36
Exercise of Stock Options	–	25	–	–	–
Issue of Common Shares	–	20	–	–	–
Repurchase of Common Shares (Note 8)	–	(53)	(14)	(535)	–
Adoption of Liability Method of Accounting for Income Taxes (Note 12)	–	–	–	(336)	–
Net Income	–	–	–	602	–
Dividends on Preferred Securities, Net of Income Taxes	–	–	–	(37)	–
Dividends on Common Shares	–	–	–	(37)	–
Translation Adjustment	–	–	–	–	27
December 31, 2000	$ 724	$ 350	$ –	$ 323	$ 63

See accompanying notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(tabular amounts in millions except as otherwise noted)

1. Accounting Policies

> The Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles in Canada. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Nexen Inc. and subsidiary companies and partnerships in which it has a controlling interest ("Nexen" or the "Company"). All subsidiary companies and, effective April 18, 2000, all partnerships are wholly owned. All material intercompany accounts and transactions have been eliminated. Substantially all exploration, development and production activities related to oil and gas and the Syncrude Joint Venture are conducted jointly with others and, accordingly, the accounts reflect only Nexen's proportionate interest in such activities.

Inventories and Supplies

Inventories and supplies for oil and gas exploration and production activities and chemicals operations are stated at the lower of cost or net realizable value. Cost is determined on the first-in first-out method or average basis. Inventories held by the marketing operation are accounted for on a mark-to-market basis and, accordingly, are stated at market value.

Property, Plant and Equipment

Nexen follows the successful efforts method of accounting for oil and gas exploration and development activities. Acquisition costs of resource properties, exploratory drilling costs and all development costs are capitalized. The cost of exploratory wells found to be dry and all other exploration costs are charged to operations.

The capitalized cost of resource properties and facilities, producing wells and the Syncrude plant are depleted or depreciated using the unit-of-production method over remaining proved developed reserves. The cost of other plant and equipment is capitalized and depreciated using the straight-line method based on the estimated useful lives of the assets, which range from three to 25 years. Improvements that increase capacity or extend the useful lives of these assets are capitalized. Unproved properties are amortized at rates determined in accordance with experience. All property, plant and equipment are periodically evaluated and, if conditions warrant, an impairment provision is provided.

Future dismantlement and site restoration costs for resource properties, facilities, production platforms and pipelines, chemical manufacturing facilities and the Syncrude Joint Venture are provided using either their associated proved reserves or their estimated remaining lives. Costs are based on engineering estimates of the anticipated method and extent of site restoration in accordance with current legislation, industry practices and costs. The annual provision for dismantlement and site restoration is included in depreciation, depletion and amortization.

Carried Interest

Production generated from the Masila Block (the "Project") in Yemen is shared by the terms of the Agreement for Petroleum Exploration and Production (the "Agreement") between the Government of Yemen (the "Government"), Nexen and the other Masila Block participants. Production is divided into Cost Recovery Oil and Profit Oil. Cost Recovery Oil provides for the recovery of operating, exploration and development costs in accordance with a formula and is limited to a maximum of 40 per cent of production during each fiscal year. Costs not actually recovered in any year may be carried forward for recovery in future years, and are included in property, plant and equipment in the Consolidated Balance Sheet.

Profit Oil is that portion of production remaining after deducting Cost Recovery Oil. Profit Oil is deliverable to both the Government and the Masila Block participants on a sliding scale basis based on production rates. Nexen's "Working Interest" in the Project is equivalent to the estimated percentage of Profit Oil deliverable to it over the life of the Project and is accounted for using the successful efforts method of accounting.

Notes to Consolidated Financial Statements

Profit Oil which is attributable to the Government is considered to be the Government's "Deemed Interest". This includes an amount in respect of all Yemen income taxes payable by Nexen under the laws of Yemen.

Under the terms of the Agreement, Nexen and the other Masila Block participants fund the Government's share of exploration, development and operating costs. Cost Recovery Oil delivered to Nexen includes a "Carried Interest" component from which Nexen will recover the Government's share of exploration, development and operating costs incurred on the Government's behalf by Nexen. Amounts received pertaining to the Government's Carried Interest are included as revenue and are offset by the actual recoveries representing firstly, the Government's share of the current year's operating costs and secondly, the Government's share of exploration and development costs. Recoveries of capitalized Carried Interest costs are shown as depreciation or depletion expense.

Revenue Recognition

Sales are recognized when title passes to the customer. Crude oil and natural gas produced and sold by Nexen above or below its working interest share in resource properties results in production overlifts and underlifts. Overlifts are recorded as liabilities and underlifts are recorded as assets. Settlement will be in kind when the liftings are equalized or in cash when production ceases.

Income Taxes

Effective January 1, 2000, the Company follows the liability method of accounting for income taxes (see Note 12). Under this method, income tax assets and income tax liabilities are recognized, at enacted rates, for differences between amounts reported for financial statement purposes and their respective tax basis. The effect of a change in income tax rates on future income tax assets and future income tax liabilities is recognized in income in the period that the change occurs.

Deferred foreign withholding taxes are not provided on the undistributed earnings of foreign incorporated subsidiaries as it is Nexen's intention to invest such earnings indefinitely in foreign countries.

Foreign Currency Translation

The assets and liabilities of foreign operations considered financially and operationally independent are translated into Canadian dollars from their functional currencies using exchange rates at the balance sheet dates. Revenue and expense items are translated using the average rates of exchange throughout the year. Gains and losses resulting from this translation process are included in the cumulative foreign currency translation adjustment in shareholders' equity in the Consolidated Balance Sheet.

Transactions and monetary balances denominated in a currency other than a functional currency are translated into the functional currency using month-end exchange rates. Gains and losses arising from this translation process are included in income.

Foreign denominated long-term monetary liabilities of Canadian operations are translated using exchange rates at the balance sheet dates. Nexen has designated its United States dollar denominated net debt as a hedge against its net investment in United States dollar-based self-sustaining foreign operations and, accordingly, gains and losses resulting from the translation of the net debt are included in the cumulative foreign currency translation adjustment in shareholders' equity in the Consolidated Balance Sheet.

Notes to Consolidated Financial Statements

Capitalized Interest

Interest is capitalized on qualifying assets until put into service, using either the interest rate on borrowings specifically associated with the asset or, if no such specific borrowings exist, the weighted average interest rate on all other borrowings.

Derivative Financial Instruments and Derivative Commodity Instruments

Nexen utilizes derivative financial instruments and derivative commodity instruments (collectively "derivative instruments") for both non-trading and trading purposes.

Nexen utilizes derivative instruments for non-trading purposes in its management of exposures to fluctuations in commodity prices, foreign currency exchange rates and interest rates as described in Note 6. Hedge accounting is used when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Gains and losses on derivative instruments used for hedging purposes are recognized in the same period as the hedged item and are recorded in the Consolidated Statement of Income in the same manner as the hedged item. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

Nexen's marketing operation utilizes energy-related futures, forwards, swaps and options to manage its exposure to commodity price fluctuations, meet customer needs and for trading purposes. Derivative instruments used in connection with the marketing operation are accounted for using the mark-to-market method of accounting, under which changes in the market value of derivative instruments are recognized as gains or losses in the period of change. Gains and losses on derivative instruments are recorded in marketing, interest and other income in the Consolidated Statement of Income.

The cash flow impact of derivative instruments is reflected as cash flows from operating activities in the Consolidated Statement of Cash Flows. See Note 6 for a further discussion of Nexen's use of derivative instruments.

Employee Benefits

The Company accrues its obligations under employee benefit plans. The cost of pension benefits earned by employees in defined benefit pension plans is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, assets are measured at fair value. Past service costs arising from plan amendments, and net actuarial gains and losses which exceed 10 per cent of the greater of the benefit obligation and the fair value of plan assets are amortized on a straight-line basis over the expected average remaining service life of the employee group.

Cash and Short-Term Investments

Cash and short-term investments include instruments with a maturity of three months or less when purchased.

Notes to Consolidated Financial Statements

2. Acquisitions

Marketing Operation

Effective July 31, 2000, Nexen acquired Northridge Energy Marketing Ltd. for cash consideration of $39 million. The purchase consisted of current assets of $172 million, current liabilities of $155 million, and linefill and goodwill of $22 million. Goodwill is amortized on a straight-line basis over 10 years. The results of operations have been consolidated since the effective date.

Chemicals Operations

On December 17, 1999, Nexen acquired a sodium chlorate and chlor-alkali facility, located in Brazil, for cash consideration of U.S. $61 million ($91 million). The results of operations have been consolidated since that date.

3. Accounts Receivable

	2000	1999
Trade		
Oil and Gas		
Marketing	$ 714	$ 163
Other	257	192
Chemicals and Other	47	43
	1,018	398
Non-Trade	62	20
	$ 1,080	$ 418

4. Inventories and Supplies

	2000	1999
Finished Products		
Oil and Gas		
Marketing	$ 146	$ 30
Other	16	2
Chemicals and Other	16	8
	178	40
Work in Process	4	5
Field Supplies	80	76
	$ 262	$ 121

Notes to Consolidated Financial Statements

5. Property, Plant and Equipment

	2000			1999		
	Cost	Accumulated Depreciation, Depletion and Amortization	Net Book Value	Cost	Accumulated Depreciation, Depletion and Amortization	Net Book Value
Oil and Gas						
Yemen	$ 571	$ 433	$ 138	$ 520	$ 374	$ 146
Yemen Carried Interest	984	881	103	885	803	82
Canada	2,863	1,095	1,768	2,513	871	1,642
United States	1,242	723	519	1,062	597	465
Australia	151	90	61	119	–	119
Other Countries	245	126	119	261	110	151
Marketing	148	43	105	126	30	96
	6,204	3,391	2,813	5,486	2,785	2,701
Syncrude Joint Venture	429	118	311	410	125	285
Chemicals	667	261	406	614	231	383
Corporate and Other	89	37	52	62	22	40
	$ 7,389	$ 3,807	$ 3,582	$ 6,572	$ 3,163	$ 3,409

Capitalized costs relating to unproved properties and projects that are under construction or development are not depreciated, depleted or amortized. Included in the above table are oil and gas assets amounting to $101 million (1999 – $203 million) which are not being depreciated, depleted or amortized.

Portions of Nexen's oil and gas and chemicals assets are located outside North America. These assets and the related operations are subject to the risk of actions by governmental authorities and insurgent groups. It is Nexen's policy to conduct its business so as to minimize such risks.

6. Financial Instruments and Financial Risk Management

The nature of Nexen's operations and the issuance of long-term debt expose the Company to fluctuations in commodity prices, foreign currency exchange rates and interest rates. The Company recognizes these risks and manages its operations in a manner intended to minimize its exposure to the extent practical, and to a lesser extent through the periodic use of derivative instruments. In addition, Nexen's marketing operation utilizes energy-related futures, forwards, swaps and options to manage its exposure to commodity price fluctuations, meet customer needs and for trading purposes. The Finance Committee of the Board of Directors and the Company's Risk Management Committee monitor Nexen's exposure to the above risks and review the results of derivative activities and all outstanding positions on a regular basis.

(a) Commodity price risk management

Nexen generally sells its crude oil and natural gas under short-term market-based contracts. During 2000, 1999 and 1998, Nexen did not utilize derivative instruments to fix the prices on its crude oil and natural gas sales, with the exception of a small quantity of heavy oil production. During 2000, Nexen held derivative instruments that fixed the differential on 14,000 barrels per day of heavy oil production. These contracts expired during 2000 and did not have a significant impact on the results of operations.

Notes to Consolidated Financial Statements

During December 2000 and subsequent to year end, Nexen purchased crude oil put option contracts in order to mitigate the impact of potential crude oil price declines. The effect of the put options will be to provide a minimum price per barrel equal to the contract strike price for all hedged volumes if the West Texas Intermediate crude oil price averages less than the strike price for the contract period.

Contract Amount	Contract Period	Strike Price
		(U.S. $ per barrel)
30,000 barrels per day	January 2001 – December 2001	$20.00
20,000 barrels per day	February 2001 – January 2002	$20.00
10,000 barrels per day	March 2001 – February 2002	$22.00
10,000 barrels per day	March 2001 – February 2002	$21.65

Nexen's marketing operation is involved in various crude oil and natural gas marketing activities intended to enhance price realizations from the sale of Nexen's proprietary and third-party oil and gas production and for energy trading purposes. The marketing operation enters into contracts to purchase and sell crude oil and natural gas. This activity exposes the Company to commodity price risk between the time contracted volumes are purchased and sold. The marketing operation actively manages this risk by utilizing energy-related futures, forwards, swaps and options. The extent of exposure under these activities is restricted to prescribed limits and is monitored using a daily value-at-risk calculation. During 2000, net revenue from these activities, including the related derivative instruments, was $48 million (1999 – $28 million; 1998 – $34 million) and at December 31, 2000, the value-at-risk was $13 million (1999 – $3 million; 1998 – $8 million).

(b) Foreign currency rate risk management

A substantial portion of Nexen's activities are transacted in or referenced to United States dollars. Revenues, expenses, capital expenditures and related net assets of oil and gas and chemicals operations outside Canada are primarily United States dollar denominated. Prices received for sales of crude oil, natural gas and a portion of chemicals products are referenced to United States dollar denominated prices. Also, Nexen has the ability to borrow on a short-term and long-term basis in United States dollars. Nexen does not have any material exposure to highly inflationary foreign currencies.

Nexen manages its exposure to fluctuations in the United States to Canadian dollar exchange rate by operating in a manner which minimizes the need to convert between the two currencies. Net revenue from foreign operations together with United States dollar denominated borrowings are generally used to fund United States dollar denominated capital expenditures and debt repayments. Derivative instruments may occasionally be used to effectively convert cash flows from Canadian to United States dollars and vice versa.

At December 31, 2000 and 1999, Nexen held the following foreign denominated net investments, long-term debt and preferred securities:

	2000	1999
United States Dollar Denominated		
Net Investments in Foreign Operations	U.S. $764	U.S. $744
Long-Term Debt	U.S. $462	U.S. $462
Preferred Securities	U.S. $476	U.S. $476

Notes to Consolidated Financial Statements

At December 31, 2000, Nexen held the following foreign currency derivative instrument related to long-term debt:

	Amount Receivable	Amount Payable	Maturity Date
Exchange Contract	Cdn. $50	U.S. $37	November 2006

This contract represents an obligation to exchange principal and interest amounts between Nexen and the counterparty. Details regarding this contract and the obligation to which it relates are described in Note 7.

(c) Interest rate risk management

Nexen uses both fixed and floating rate debt to finance its operations. The floating rate debt obligations expose the Company to changes in interest payments due to fluctuations in interest rates. Nexen manages its interest rate exposure by maintaining a combination of fixed and floating rate borrowings and the periodic use of derivative instruments.

At December 31, 2000, Nexen had fixed the interest rates on 72 per cent (1999 – 81 per cent) of its long-term debt at an effective average rate of 7.2 per cent (1999 – 7.2 per cent) through fixed rate borrowings and the following derivative instrument:

	Principal Amount	Effective Rate	Maturity Date
Exchange Contract	U.S. $37	6.75%	November 2006

The exchange contract represents an obligation to exchange principal and interest amounts between Nexen and the counterparty.

(d) Credit risk

A substantial portion of the Company's accounts receivable are with customers in the energy industry and are subject to normal industry credit risk.

(e) Carrying value and estimated fair values of financial instruments and hedge-related derivative instruments

Assets (Liabilities) at December 31,	2000		1999	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-Term Debt	$ (1,523)	$ (1,487)	$ (1,308)	$ (1,483)
Preferred Securities	$ (724)	$ (677)	$ (724)	$ (634)
Foreign Exchange Contracts	$ (5)	$ (3)	$ (6)	$ (6)
Heavy Oil Differential Hedges	$ –	$ –	$ –	$ (8)
Crude Oil Put Options	$ 5	$ 5	$ –	$ –

The estimated fair value of financial instruments and hedge-related derivative instruments is based on public trading values where available or, where not available, on values for similarly traded instruments with similar features. The carrying value of cash and short-term investments, amounts receivable and short-term obligations approximates their fair value because of the near-term maturity of those instruments.

Notes to Consolidated Financial Statements

7. Long-Term Debt and Short-Term Borrowings

	2000	1999
Unsecured Syndicated Term Credit Facilities (a)	$ 430	$ 241
Unsecured Debentures, due 2001 (b)	75	75
Unsecured Redeemable Notes, due 2004 (c)	338	325
Unsecured Redeemable Debentures, due 2006 (d)	105	103
Unsecured Redeemable Medium-Term Notes, due 2007 (e)	150	150
Unsecured Redeemable Medium-Term Notes, due 2008 (f)	125	125
Unsecured Redeemable Notes, due 2028 (g)	300	289
	$ 1,523	$ 1,308

(a) Unsecured syndicated term credit facilities

Nexen has committed unsecured revolving term credit facilities totalling $1,550 million. Amounts are available for six years, except for $575 million which is available for seven years. Amounts available under the facilities are extendable at each lender's option on an annual basis. If the facilities are not extended, they continue to revolve except for $390 million. No repayments are required until the end of the availability period. Borrowings are available in the form of Canadian bankers' acceptances, LIBOR-based loans, Canadian prime loans or U.S. dollar base rate loans. Interest is payable at a floating rate.

At December 31, 2000, certain lenders have not extended and accordingly, $79 million and $35 million cease to be available at July 2001 and July 2003, respectively. Subject to further extension by the lenders, $861 million is available until 2006 and $575 million is available until 2007.

During 2000, the weighted average interest rate was 6.2 per cent (1999 – 5.5 per cent).

(b) Unsecured debentures, due 2001

During June 1991, Nexen issued $75 million of unsecured 10-year debentures. Interest is payable semi-annually at a rate of 10.85 per cent and the principal is to be repaid in June 2001. Nexen intends to refinance the obligation with existing long-term debt facilities and accordingly, it has not been included in current liabilities at December 31, 2000.

(c) Unsecured redeemable notes, due 2004

During February 1999, Nexen issued U.S. $225 million principal amount of notes. Interest is payable semi-annually at a rate of 7.125 per cent and the principal is to be repaid in February 2004. The notes are redeemable, in whole or in part, at any time by the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a United States Treasury security having a term to maturity equal to the remaining term of the notes.

Notes to Consolidated Financial Statements

(d) Unsecured redeemable debentures, due 2006

During November 1996, Nexen issued $100 million of unsecured 10-year redeemable debentures. Interest is payable semi-annually at a rate of 6.85 per cent and the principal is to be repaid in November 2006. In December 1996, $50 million of this obligation was effectively converted through an interest rate and currency exchange contract with a Canadian chartered bank to a U.S. $37 million liability bearing interest at an effective rate of 6.75 per cent for the term of the debentures. The debentures are redeemable, in whole or in part, at any time by the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a Government of Canada Bond having a term to maturity equal to the remaining term of the debentures plus 0.10 per cent.

(e) Unsecured redeemable medium-term notes, due 2007

During July 1997, Nexen issued $150 million principal amount of notes. Interest is payable semi-annually at a rate of 6.45 per cent and the principal is to be repaid in July 2007. The notes are redeemable, in whole or in part, at any time by the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a Government of Canada Bond having a term to maturity equal to the remaining term of the notes plus 0.125 per cent.

(f) Unsecured redeemable medium-term notes, due 2008

During October 1997, Nexen issued $125 million principal amount of notes. Interest is payable semi-annually at a rate of 6.30 per cent and the principal is to be repaid in June 2008. The notes are redeemable, in whole or in part, at any time by the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a Government of Canada Bond having a term to maturity equal to the remaining term of the notes plus 0.125 per cent.

(g) Unsecured redeemable notes, due 2028

During April 1998, Nexen issued U.S. $200 million principal amount of notes. Interest is payable semi-annually at a rate of 7.40 per cent and the principal is to be repaid in May 2028. The notes are redeemable, in whole or in part, at any time by the Company at a price equal to the greater of par and an amount calculated to provide a yield equal to the yield on a United States Treasury security having a term to maturity equal to the remaining term of the notes plus 0.25 per cent.

(h) Repayment and interest

Required long-term debt repayments, before considering the intended refinancing in 2001, for the next five years are: 2001 – $118 million; 2002 – $nil; 2003 – $19 million; 2004 – $338 million; and 2005 – $nil. Interest expense on long-term debt was $125 million, $103 million and $139 million in 2000, 1999 and 1998, respectively.

(i) Debt covenants

The majority of debt instruments contain covenants pertaining to certain financial ratios and the ability to grant security. At December 31, 2000, all covenants have been met.

(j) Short-term borrowings

Nexen has unsecured operating loan facilities of approximately $260 million. Interest is payable at floating rates and the facilities are subject to periodic reviews.

During 2000 and 1999, the weighted average interest rate on short-term borrowings was 6.1 per cent and 5.3 per cent, respectively.

Notes to Consolidated Financial Statements

8. Preferred Securities and Share Capital

> (a) Preferred securities

In February 1999, Nexen issued U.S. $217 million of unsecured junior subordinated debentures ("preferred securities"). Interest is payable quarterly at a rate of 9.375 per cent and the principal is to be repaid in March 2048. The preferred securities are redeemable, in whole or in part, on or after February 9, 2004, by the Company at par. Nexen may defer, subject to certain conditions, up to 20 consecutive quarterly interest payments and may satisfy its interest, principal or redemption payments through the issuance of common shares.

In October 1998, Nexen issued U.S. $259 million of preferred securities. Interest is payable quarterly at a rate of 9.75 per cent and the principal is to be repaid in October 2047. The preferred securities are redeemable, in whole or in part, on or after October 30, 2003, by the Company at par. Nexen may defer, subject to certain conditions, up to 20 consecutive quarterly interest payments and may satisfy its interest, principal or redemption payments through the issuance of common shares.

Since the Company has the unrestricted ability to settle the interest, principal and redemption payments through the issuance of common shares, the preferred securities are classified as equity. Accordingly, the principal amount is included in shareholders' equity in the Consolidated Balance Sheet. Interest payments, net of income taxes, are classified as dividends and charged directly to retained earnings.

Authorized capital

Authorized share capital consists of an unlimited number of common shares of no par value and an unlimited number of Class A preferred shares of no par value issuable in series.

(b) Issued common shares and dividends

(thousands of shares)	2000	1999	1998
Beginning of Year	138,145	137,373	136,610
Exercise of Stock Options	1,129	136	190
Issue of Common Shares for Cash	581	636	573
Repurchase of Common Shares	(20,000)	–	–
End of Year	119,855	138,145	137,373
Dividends per Common Share	$ 0.30	$ 0.30	$ 0.30

In March 2000, the Company, Ontario Teachers' Pension Plan Board ("Teachers") and Occidental Petroleum Corporation ("Occidental") entered into an agreement (the "Agreement") whereby Occidental would sell its 29 per cent interest in Nexen. The Agreement was approved by a majority of Nexen shareholders other than Occidental and Teachers at a meeting of shareholders on April 17, 2000.

Under the terms of the Agreement, Teachers purchased 20.2 million common shares of the Company. Nexen repurchased 20 million common shares for $605 million including associated fees. Upon repurchase, the common shares were cancelled.

During 2000, Nexen issued 432,717 (1999 – 636,292; 1998 – 375,694) common shares for cash consideration of $14 million (1999 – $12 million; 1998 – $10 million) under a Dividend Reinvestment Plan. At December 31, 2000, there were 1,022,545 common shares reserved for issuance under this plan. During 2000, Nexen issued 148,365 common shares (1999 – nil; 1998 – 197,175) for cash consideration of $6 million (1999 – $nil; 1998 – $5 million) pursuant to an employee flow-through share arrangement.

Notes to Consolidated Financial Statements

(c) Stock options

The following options to purchase common shares have been granted to directors, officers and employees. These options vest over four years and are exercisable on a cumulative basis over ten years. At the time of grant, the exercise price is equal to the market price.

	Options	Weighted Average Exercise Price
	(thousands)	
December 31, 1997	2,115	$ 22
Granted	2,853	$ 22
Exercised	(190)	$ 18
Forfeited	(117)	$ 24
December 31, 1998	4,661	$ 23
Granted	1,793	$ 27
Exercised	(136)	$ 18
Forfeited	(112)	$ 25
December 31, 1999	6,206	$ 24
Granted	3,016	$ 36
Exercised	(1,129)	$ 22
Forfeited	(117)	$ 25
December 31, 2000	7,976	$ 29
Options exercisable at end of year		
1998	1,314	$ 23
1999	2,352	$ 22
2000	2,741	$ 24

The range of exercise prices of the Company's outstanding stock options at December 31, 2000, is as follows:

	Outstanding Options			Exercisable Options	
Range of Exercise Prices	Number of Options	Weighted Average Exercise Price	Weighted Average Years to Expiry	Number of Options	Weighted Average Exercise Price
	(thousands)			(thousands)	
$ 9.63 to $16.99	84	$ 14	3	84	$ 14
$17.00 to $24.99	1,967	$ 19	7	1,284	$ 20
$25.00 to $29.99	2,777	$ 28	8	1,270	$ 28
$30.00 to $40.35	3,148	$ 36	10	103	$ 32

At December 31, 2000, there were 25,795 additional options available for granting.

Notes to Consolidated Financial Statements

9. Net Income (Loss) per Common Share

> The calculation of net income (loss) per common share is based on the weighted average number of common shares outstanding of 125.0 million, 137.8 million and 137.0 million for the years ended December 31, 2000, 1999 and 1998, respectively, and net income (loss) after deducting dividends on preferred securities, net of income taxes.

Fully diluted and supplemental fully diluted net income (loss) per common share are as follows:

	2000	1999	1998
Fully Diluted	$ 4.29	$ 0.46	$ (0.83)
Supplemental Fully Diluted	$ 3.99	$ 0.46	$ (0.83)

Fully diluted net income (loss) per common share assumes the exercise of all options outstanding under the employee stock option plan at the average exercise price. Supplemental fully diluted net income (loss) per common share also assumes the redemption of the preferred securities by issuance of common shares. The impact of these assumptions for the years ended December 31, 1999 and 1998 was anti-dilutive.

10. Contingencies

> There are a number of lawsuits and claims pending including income tax reassessments as described in Note 12, the ultimate results of which cannot be ascertained at this time. Costs are recorded as they are incurred or become determinable. Management is of the opinion that the resolution of such matters would not have a material adverse effect upon its consolidated financial position or results of operations.

11. Pension and Other Post-Retirement Benefits

> The Company maintains contributory and non-contributory defined benefit and defined contribution pension plans, which together cover substantially all employees. The defined benefit pension plans provide pension benefits upon retirement based on length of service and final average earnings. Defined contribution benefits are based on plan contributions.

The cost of pension benefits earned by employees in the defined benefit pension plans is determined using the projected benefit method prorated on employment services and is expensed as employment services are rendered. The defined benefit plans are funded in accordance with federal and provincial government regulations by contributions to trust funds, which are administered by an independent trustee. Assets of the defined benefit pension funds are invested in investment funds, consisting primarily of equities and bonds.

Nexen provides certain post-retirement benefits, including group life and supplemental health insurance to eligible employees and their eligible dependents. Such costs are fully accrued as deferred compensation earned during the period that employees render service, however, no funding of these future obligations is provided. Future liabilities are not material to the ongoing operations of the Company.

Notes to Consolidated Financial Statements

The following table sets forth for the defined benefit plans reconciliations of the beginning and ending balances of the benefit obligation and the fair value of the plan assets, the funded status and the assumptions used in the determination of the projected benefit obligation and net pension expense:

	2000	1999
Change in Benefit Obligation		
Benefit Obligation – Beginning of Year	$ 120	$ 129
Service Cost	5	6
Interest Cost	9	8
Plan Participants' Contributions	2	2
Actuarial Gain	–	(9)
Benefits Paid	(6)	(6)
Plan Amendment	1	(10)
Benefit Obligation – End of Year	$ 131	$ 120
Change in Fair Value of Plan Assets		
Fair Value of Plan Assets – Beginning of Year	$ 122	$ 120
Actual Return on Plan Assets	26	7
Employer's Contribution	4	5
Plan Participants' Contributions	2	2
Benefits Paid	(6)	(6)
Plan Amendment	–	(6)
Fair Value of Plan Assets – End of Year	$ 148	$ 122
Reconciliation of Funded Status		
Funded Status	$ 17	$ 2
Unamortized Transitional Obligation	2	2
Unamortized Prior Service Costs	3	–
Unamortized Net Actuarial Gains	(27)	(8)
Pension Obligation Recognized in the Consolidated Balance Sheet	$ (5)	$ (4)
Assumptions		
Discount Rate	7.00%	6.25%
Long-Term Rate of Employee Compensation Increase	4.00%	3.75%
Long-Term Annual Rate of Return on Plan Assets	7.00%	7.00%

Included in the above amounts are unfunded obligations for supplemental benefits to the extent that the benefit under the defined benefit pension plan is limited by statutory guidelines. At December 31, 2000, the projected benefit obligation for supplemental benefits was $13 million (1999 – $12 million).

Notes to Consolidated Financial Statements

Net pension expense for the defined benefit pension plans has been determined as follows:

	2000	1999	1998
Cost of Benefits Earned by Employees	$ 5	$ 6	$ 5
Interest Cost on Benefits Earned	9	8	7
Expected Return on Pension Plan Assets	(9)	(8)	(7)
Settlement Gain	–	(3)	–
Net Amortization and Deferral	–	(1)	1
Net Pension Expense	$ 5	$ 2	$ 6

During 2000, pension expense for the Company's defined contribution pension plans was $2 million (1999 – $2 million; 1998 – $2 million).

12. Income Taxes

> Effective January 1, 2000, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. Under the new recommendations, the liability method is used. The new method was applied retroactively without restatement of prior periods. The effect of the change in accounting policy on the Consolidated Financial Statements as at January 1, 2000, was to increase (decrease) the following items:

Future Income Tax Assets	$ 450
Future Income Tax Liabilities	$ 786
Retained Earnings	$ (336)

The adjustment to retained earnings was primarily a result of the recognition of the future income tax cost of the Wascana Energy Inc. ("Wascana") acquisition in 1997, in which the tax basis acquired was less than the purchase price.

Temporary differences that gave rise to future income tax assets and future income tax liabilities are as follows:

	January 1, 2000		December 31, 2000	
	Future Income Tax Assets	Future Income Tax Liabilities	Future Income Tax Assets	Future Income Tax Liabilities
Property, Plant and Equipment, Net	$ 116	$ 728	$ 119	$ 776
Dismantlement and Site Restoration Allowance	57	–	61	–
Tax Losses Carried Forward	225	–	239	–
Deferred Income	–	148	–	282
Foreign Exchange	2	26	2	8
Recoverable Taxes	66	–	83	–
Other	10	(8)	6	6
	476	894	510	1,072
Valuation Allowance	(26)	–	(36)	–
	$ 450	$ 894	$ 474	$ 1,072

The future income tax asset valuation allowance is in respect of foreign tax credit carry forwards.

At December 31, 2000, the Company had available unused tax losses totalling $535 million (1999 – $512 million). The majority of these losses relate to Canada and expire at various times to the end of 2007.

Notes to Consolidated Financial Statements

Income (loss) before income taxes generated from Canadian and foreign operations is as follows:

	2000	1999	1998
Canadian	$ 240	$ 36	$ (245)
Foreign	769	238	151
	$ 1,009	$ 274	$ (94)

The Canadian and foreign components of the provision for (recovery of) income taxes based on the jurisdiction in which income is taxed are as follows:

	2000	1999	1998
Current			
Canadian	$ 7	$ 6	$ 7
Foreign	235	137	78
	242	143	85
Future			
Canadian	119	44	(70)
Foreign	46	(13)	1
	165	31	(69)
Total			
Canadian	126	50	(63)
Foreign	281	124	79
Provision for Income Taxes	$ 407	$ 174	$ 16

Foreign is principally comprised of Yemen, the United States, Australia, and the United Kingdom prior to its disposition in 1998.

The provision for income taxes in the Consolidated Statement of Income varies from the provision for income taxes calculated at the Canadian statutory tax rate. The following table reconciles the main differences:

	2000	1999	1998
Income (Loss) Before Income Taxes	$ 1,009	$ 274	$ (94)
Provision for (Recovery of) Income Taxes Computed at the Canadian Statutory Rate	$ 449	$ 122	$ (42)
Add (Deduct) the Tax Effect of:			
Royalties, Rentals and Similar Payments to Provincial Governments	79	48	34
Resource Allowance and Provincial Tax Rebates	(81)	(41)	(24)
Lower Tax Rates on Foreign Operations	(45)	(20)	(30)
Permanent Differences Between Accounting and Tax Basis of Assets and Liabilities	–	56	69
Large Corporation Tax	6	6	7
Other	(1)	3	2
Provision for Income Taxes	$ 407	$ 174	$ 16

Nexen's income tax filings are subject to audit by taxation authorities. There are various audits in progress and items under review, some of which may increase the tax liability of the Company. The ultimate results of these items cannot be ascertained at this time. Management is of the opinion that it has adequately provided for income taxes based on all information currently available.

Notes to Consolidated Financial Statements

At the time of acquisition, Wascana had outstanding taxation issues in dispute relating to prior taxation years. Wascana disagreed with issues raised and has filed Notices of Objection in respect of these issues. The value of the tax pools acquired at the time of acquisition reflected management's evaluation of the potential impact of these issues.

13. Cash Flows

(a) Charges and credits to income not involving cash

	2000	1999	1998
Depreciation, Depletion and Amortization	$ 667	$ 534	$ 713
Gain on Disposition of Assets	(42)	(26)	(135)
Future Income Taxes	165	31	(69)
Other	4	5	14
	$ 794	$ 544	$ 523

(b) Changes in non-cash working capital

Changes in non-cash working capital items increased (decreased) cash as follows:

	2000	1999	1998
Accounts Receivable	$ (521)	$ 120	$ (63)
Inventories and Supplies	(120)	(11)	(31)
Prepaid Expenses	3	1	–
Accounts Payable and Accrued Liabilities	430	7	(1)
Accrued Interest Payable	(1)	6	4
Dividends Payable	(1)	–	–
	(210)	123	(91)
Effect of Foreign Exchange Rate Changes on Non-Cash Working Capital	7	(2)	(3)
	$ (203)	$ 121	$ (94)

These changes relate to the following activities:

	2000	1999	1998
Operating Activities	$ (243)	$ (64)	$ 92
Financing Activities	(2)	(65)	–
Investing Activities	42	250	(186)
	$ (203)	$ 121	$ (94)

(c) Other cash flow information

	2000	1999	1998
Interest Paid	$ 133	$ 97	$ 145
Income Taxes Paid	$ 236	$ 140	$ 81

Notes to Consolidated Financial Statements

14. Operating Segments and Related Information

> Nexen is involved in activities relating to Oil and Gas, the Syncrude Joint Venture and Chemicals in various geographic locations.

The oil and gas activities involve exploration for and the development and production of crude oil, natural gas and related products around the world. Operations are generally managed on a country-by-country basis reflecting differences in the regulatory environments and risk factors associated with a country. Principal operations are located onshore in Yemen and Canada, and in the offshore waters of the United States Gulf of Mexico and Australia. Other operations are located primarily in Nigeria, Colombia, and Indonesia. The Company's oil and gas assets located in the United Kingdom sector of the North Sea were sold effective December 31, 1998. Oil and gas activities also include the transportation and marketing of proprietary and third-party crude oil and natural gas.

The Syncrude Joint Venture activities involve the development and production of synthetic crude oil from oil sands in northern Alberta in Canada.

The chemicals operations involve the manufacture, marketing and distribution of industrial chemicals, principally sodium chlorate, chlorine and caustic soda. Sodium chlorate is produced at five facilities located in Canada, one facility in the United States and one facility in Brazil. Chlorine and caustic soda are produced at chlor-alkali facilities in Canada and Brazil.

The accounting policies of the operating segments are the same as those described in Note 1. Net income of operating segments excludes interest income, interest expense, unallocated corporate expenses and foreign exchange gains and losses. Identifiable assets are those used in the operations of the segments.

Notes to the following tables:

(a) Includes results of operations from producing activities in Nigeria and Ecuador. See note (d) below.

(b) Includes results of operations from sales of asphalt and related by-products in Canada.

(c) Comprised of sales in Canada of $228 million, the United States of $54 million and Brazil of $23 million (1999 – Canada $99 million and United States $141 million; 1998 – Canada $109 million and United States $149 million). In addition, the Canadian operations sell finished products to the United States operations at market prices less an amount for selling costs.

(d) On April 18, 2000, Nexen exchanged its oil and gas operations in Ecuador for Occidental's 15 per cent interest in the Company's chemicals operations. The exchange was valued at $55 million. Results of operations from producing activities in Ecuador and Occidental's minority interest in chemicals have been included to April 18, 2000.

(e) Sales and cost of sales associated with the purchase and sale of crude oil and natural gas are recorded on a net basis and included in marketing, interest and other income in the Consolidated Statement of Income. Sales and cost of sales were $8,180 million and $8,132 million (1999 – $3,916 million and $3,888 million; 1998 – $2,750 million and $2,716 million), respectively. Net sales in Canada and the Syncrude Joint Venture reflect sales to the Marketing segment.

(f) Includes exploration activities primarily in Nigeria, Indonesia and Colombia.

(g) The provision for (recovery of) income taxes for foreign geographic operating locations is based on in-country taxes on foreign income. For oil and gas locations with no operating activities, the provision is based on the tax jurisdiction of the entity undertaking the activity.

(h) Includes $247 million of future income tax assets in 2000 (see Note 12).

(i) Includes an impairment charge of $40 million related to Nigeria in 1998.

(j) Sales made in Canada from all segments were $1,218 million (1999 – $698 million; 1998 – $624 million) and property, plant and equipment located in Canada was $2,472 million at December 31, 2000 (1999 – $2,274 million; 1998 – $2,350 million).

Notes to Consolidated Financial Statements

2000 Operating and Geographic Segments

	Oil and Gas						Syncrude Joint Venture	Chemicals	Corporate and Other Items[b]	Total
	Yemen	Canada	United States	Australia	Other Countries[a]	Marketing				
Net Sales	$ 752	$ 698	$ 382	$ 167	$ 78	$ –	$ 199	$ 305[c]	$ 93	$ 2,674
Gain on Disposition of Assets	–	23	1	–	18[d]	–	–	–	–	42
Marketing, Interest and Other Income	6	2	–	–	1	48[e]	–	7	25	89
Total Revenues	758	723	383	167	97	48	199	312	118	2,805
Operating and Other	58	135	55	27	22	–	98	216	96	707
General and Administrative	3	21	6	1	17	12	–	17	40	117
Depreciation, Depletion and Amortization	90	233	139	86	40	13	12	40	14	667
Exploration	14	40	60	23	36[f]	–	–	–	–	173
Interest, Net	–	–	–	–	–	–	–	–	132	132
Income (Loss) Before Income Taxes	593	294	123	30	(18)	23	89	39	(164)	1,009
Provision for (Recovery of) Income Taxes[g]	219	129	50	11	(5)	9	29	16	(51)	407
Net Income (Loss)	$ 374	$ 165	$ 73	$ 19	$ (13)	$ 14	$ 60	$ 23	$ (113)	$ 602
Identifiable Assets	$ 427	$ 1,956	$ 699	$ 91	$ 179	$ 1,015	$ 327	$ 506	$ 351[h]	$ 5,551
Additions to Property, Plant and Equipment										
Development and Other Expenditures	$ 98	$ 297	$ 81	$ –	$ 9	$ 2	$ 37	$ 31	$ 25	$ 580
Exploration Expenditures	15	65	143	19	58	–	–	–	–	300
Proved Property Acquisitions	–	28	4	3	–	–	–	–	–	35
Capital Additions	$ 113	$ 390	$ 228	$ 22	$ 67	$ 2	$ 37	$ 31	$ 25	$ 915
Property, Plant and Equipment										
Cost	$ 1,555	$ 2,863	$ 1,242	$ 151	$ 245	$ 148	$ 429	$ 667	$ 89	$ 7,389
Accumulated Depreciation, Depletion and Amortization	1,314	1,095	723	90	126	43	118	261	37	3,807
Net Book Value	$ 241	$ 1,768	$ 519	$ 61	$ 119	$ 105	$ 311	$ 406	$ 52	$ 3,582

Notes to Consolidated Financial Statements

1999 Operating and Geographic Segments

	Oil and Gas						Syncrude Joint Venture	Chemicals	Corporate and Other Items[b]	Total
	Yemen	Canada	United States	Australia	Other Countries[a]	Marketing				
Net Sales	$ 499	$ 385	$ 203	$ –	$ 70	$ –	$ 162	$ 240[c]	$ 52	$ 1,611
Gain on Disposition of Assets	–	25	1	–	–	–	–	–	–	26
Marketing, Interest and Other Income	4	8	1	–	3	28[e]	–	2	11	57
Total Revenues	503	418	205	–	73	28	162	242	63	1,694
Operating and Other	52	113	51	–	24	–	74	177	43	534
General and Administrative	5	26	5	–	16	9	2	16	31	110
Depreciation, Depletion and Amortization	96	212	120	–	44	12	12	29	9	534
Exploration	11	23	31	15	56[f]	–	–	–	–	136
Interest, Net	–	–	–	–	–	–	–	–	106	106
Income (Loss) Before Income Taxes	339	44	(2)	(15)	(67)	7	74	20	(126)	274
Provision for (Recovery of) Income Taxes[g]	129	85	–	(5)	(18)	3	25	8	(53)	174
Net Income (Loss)	$ 210	$ (41)	$ (2)	$ (10)	$ (49)	$ 4	$ 49	$ 12	$ (73)	$ 100
Identifiable Assets	$ 331	$ 1,783	$ 539	$ 120	$ 176	$ 313	$ 294	$ 449	$ 100	$ 4,105
Additions to Property, Plant and Equipment										
Development and Other Expenditures	$ 68	$ 136	$ 51	$ 96	$ 19	$ 3	$ 54	$ 18	$ 13	$ 458
Exploration Expenditures	6	32	37	19	52	–	–	–	–	146
Proved Property Acquisitions	–	2	6	–	–	–	–	–	–	8
Capital Additions	$ 74	$ 170	$ 94	$ 115	$ 71	$ 3	$ 54	$ 18	$ 13	$ 612
Property, Plant and Equipment										
Cost	$ 1,405	$ 2,513	$ 1,062	$ 119	$ 261	$ 126	$ 410	$ 614	$ 62	$ 6,572
Accumulated Depreciation, Depletion and Amortization	1,177	871	597	–	110	30	125	231	22	3,163
Net Book Value	$ 228	$ 1,642	$ 465	$ 119	$ 151	$ 96	$ 285	$ 383	$ 40	$ 3,409

Notes to Consolidated Financial Statements

1998 Operating and Geographic Segments

	Oil and Gas							Syncrude Joint Venture	Chemicals	Corporate and Other Items[b]	Total
	Yemen	Canada	United States	North Sea	Australia	Other Countries[a]	Marketing				
Net Sales	$ 399	$ 367	$ 183	$ 64	$ –	$ 21	$ –	$ 115	$ 258[c]	$ 33	$ 1,440
Gain (Loss) on Disposition of Assets	–	31	1	101	–	–	(1)	3	–	–	135
Marketing, Interest and Other Income	5	–	8	10	–	1	34[e]	–	3	14	75
Total Revenues	404	398	192	175	–	22	33	118	261	47	1,650
Operating and Other	49	151	49	21	–	10	–	75	166	47	568
General and Administrative	4	33	7	3	–	17	9	3	17	35	128
Depreciation, Depletion and Amortization	175	277	112	38	–	54[i]	11	13	24	9	713
Exploration	22	36	24	1	51	53[f]	–	–	–	–	187
Interest, Net	–	–	–	–	–	–	–	–	–	148	148
Income (Loss) Before Income Taxes	154	(99)	–	112	(51)	(112)	13	27	54	(192)	(94)
Provision for (Recovery of) Income Taxes[g]	63	33	–	10	(18)	(34)	5	9	23	(75)	16
Net Income (Loss)	$ 91	$ (132)	$ –	$ 102	$ (33)	$ (78)	$ 8	$ 18	$ 31	$ (117)	$ (110)
Identifiable Assets	$ 355	$ 1,882	$ 587	$ –	$ 35	$ 472	$ 183	$ 255	$ 339	$ 118	$ 4,226
Additions to Property, Plant and Equipment											
Development and Other Expenditures	$ 85	$ 229	$ 78	$ 4	$ 16	$ 77	$ 6	$ 36	$ 17	$ 14	$ 562
Exploration Expenditures	39	51	107	2	51	82	–	–	–	–	332
Proved Property Acquisitions	–	11	45	–	–	–	–	–	–	–	56
Capital Additions	$ 124	$ 291	$ 230	$ 6	$ 67	$ 159	$ 6	$ 36	$ 17	$ 14	$ 950
Property, Plant and Equipment											
Cost	$ 1,421	$ 2,423	$ 1,077	$ –	$ 23	$ 263	$ 124	$ 358	$ 508	$ 48	$ 6,245
Accumulated Depreciation, Depletion and Amortization	1,153	669	531	–	–	74	19	115	209	16	2,786
Net Book Value	$ 268	$ 1,754	$ 546	$ –	$ 23	$ 189	$ 105	$ 243	$ 299	$ 32	$ 3,459

Notes to Consolidated Financial Statements

15. Differences between Canadian and United States Generally Accepted Accounting Principles > The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in Canada. The significant differences from United States principles are as follows:

(a) In accordance with U.S. principles, the preferred securities are classified as long-term debt rather than shareholders' equity. Accordingly, the pre-tax dividends are included in interest expense and the related income tax is included in the provision for income taxes in the Consolidated Statement of Income. The related pre-tax issue costs are included in deferred charges and other assets and the foreign currency translation gains or losses are included in other comprehensive income in the Consolidated Balance Sheet. The pre-tax dividends are included in operating activities in the Consolidated Statement of Cash Flows.

(b) In accordance with U.S. principles, the liability method of accounting for income taxes was adopted in 1993 rather than January 1, 2000, as described in Note 12. Under U.S. principles, the adjustment on initial adoption was included in property, plant and equipment rather than retained earnings. This results in increased depreciation expense under U.S. principles.

(c) In accordance with U.S. principles, the treasury method is used in the determination of fully diluted earnings per share whereby it is assumed that the Company uses the proceeds that would have been received on the exercise of stock options to repurchase outstanding common shares at average market prices. In addition, the impact of the redemption of the preferred securities by the issuance of common shares is included.

The impact of these differences on the Consolidated Financial Statements is as follows:

Consolidated Statement of Income

	2000	1999	1998
Net Income (Loss) as Reported in Accordance with Canadian Principles	$ 602	$ 100	$ (110)
(a) Dividends on Preferred Securities	(68)	(65)	(6)
Less: Associated Future Income Taxes	31	28	2
(b) Accounting for Income Taxes			
Depreciation Expense	(43)	(58)	(70)
Future Income Taxes	–	58	69
Net Income (Loss) in Accordance with U.S. Principles	$ 522	$ 63	$ (115)
Net Income (Loss) per Common Share in Accordance with U.S. Principles	$ 4.17	$ 0.46	$ (0.84)

(c) Net income (loss) per fully diluted common share in accordance with U.S. principles was $3.83 (1999 – anti-dilutive; 1998 – $(0.84)).

Notes to Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

In accordance with U.S. principles, exchange gains and losses arising from the translation of the Company's net investment in self-sustaining foreign operations and long-term monetary liabilities are included in comprehensive income which is added to net income in determining total comprehensive income. Cumulative amounts are included in accumulated other comprehensive income in the Consolidated Balance Sheet. In accordance with Canadian principles, such amounts are included in the cumulative foreign currency translation adjustment in shareholders' equity in the Consolidated Balance Sheet. During 2000, the foreign currency translation adjustment, net of future income taxes, was $nil (1999 – $19 million; 1998 – $(46) million) and total comprehensive income (loss) was $522 million (1999 – $82 million; 1998 – $(161) million).

Consolidated Balance Sheet

	2000		1999	
	Canadian Principles	U.S. Principles	Canadian Principles	U.S. Principles
Property, Plant and Equipment, Net	$ 3,582	$ 3,882	$ 3,409	$ 3,752
Deferred Charges and Other Assets	$ 28	$ 51	$ 46	$ 70
Future Income Tax Assets	$ 474	$ 474	$ –	$ 450
Long-Term Debt	$ 1,523	$ 2,238	$ 1,308	$ 1,997
Future Income Tax Liabilities	$ 1,072	$ 1,082	$ 108	$ 904
Preferred Securities	$ 724	$ –	$ 724	$ –
Retained Earnings	$ 323	$ 637	$ 666	$ 687
Cumulative Foreign Currency Translation Adjustment	$ 63	$ –	$ 36	$ –
Accumulated Other Comprehensive Income	$ –	$ 71	$ –	$ 71

Consolidated Statement of Cash Flows

In accordance with U.S. principles, dividends on preferred securities in the amount of $68 million (1999 – $65 million; 1998 – $6 million) that are included in financing activities would be reported in operating activities.

In accordance with U.S. principles, geological and geophysical costs in the amount of $74 million (1999 – $37 million; 1998 – $45 million) that are included in investing activities would be reported in operating activities.

Notes to Consolidated Financial Statements

Additional Disclosure

The Company provides stock-based compensation in the form of stock options to directors, officers and employees. At the time of grant, the exercise price is equal to the market price and, accordingly, no compensation expense is recognized under the Company's accounting policies. Under U.S. principles, a compensation cost is measured at the grant date in accordance with a fair value-based method utilizing an option-pricing model. Companies electing not to recognize the compensation cost determined under the fair value-based method must make pro forma disclosures of net income and net income per share as if that method of accounting had been applied. The following table provides pro forma measures of net income (loss) and net income (loss) per common share had Nexen applied the fair value-based method in accordance with U.S. principles:

	2000	1999	1998
Net Income (Loss)			
As Reported	$ 522	$ 63	$ (115)
Pro Forma	$ 508	$ 53	$ (120)
Net Income (Loss) Per Common Share			
As Reported	$ 4.17	$ 0.46	$ (0.84)
Pro Forma	$ 4.07	$ 0.38	$ (0.87)

Stock options granted in 2000 had an estimated weighted-average fair value of $13.06 per option (1999 – $9.12 per option; 1998 – $9.11 per option). Each option permits the holder to purchase one common share of the Company at the stated exercise price.

The estimated fair value of stock options issued was determined using the Black-Scholes model using the following weighted average assumptions:

	2000	1999	1998
Risk-Free Interest Rate (%)	5.8	6.6	6.0
Estimated Hold Period Prior To Exercise (years)	5	5	5
Volatility in the Price of the Company's Common Shares (%)	34	28	44

Recent Developments in U.S. Accounting Standards

On January 1, 2001, Nexen will adopt Financial Accounting Standards Board Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities", as modified by Statement No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities" ("FAS 133"). FAS 133 requires the Company to recognize all derivative instruments on the balance sheet as either an asset or a liability measured at fair value. Changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met. Changes in the fair value of derivatives that are designated as hedges are recognized in earnings in the same period as the hedged item. FAS 133 requires that a company formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The adoption of FAS 133 on January 1, 2001, will not have a material impact on the consolidated financial position or the results of operations of the Company.

Supplementary Financial Information

(unaudited)

Quarterly Financial Data in Accordance with Canadian and U.S. GAAP

Summarized quarterly financial data for 2000 and 1999 is as follows:

	March 31		June 30		September 30		December 31	
(millions except per share data)	2000	1999	2000	1999	2000	1999	2000	1999
Net Sales	$ 581	$ 288	$ 630	$ 358	$ 720	$ 460	$ 743	$ 505
Operating Profit (Loss)								
Oil and Gas[1][2]	$ 226	$ 4	$ 248	$ 37	$ 303	$ 130	$ 268	$ 135
Syncrude Joint Venture[3]	15	6	24	15	27	26	23	27
Chemicals	16	10	13	4	14	6	(4)	–
	257	20	285	56	344	162	287	162
Interest and Other Corporate Items[4]	35	38	37	31	40	24	52	33
Income Tax Expense	85	28	102	15	132	74	88	57
Net Income (Loss) in Accordance with Canadian GAAP	137	(46)	146	10	172	64	147	72
U.S. GAAP Adjustment	(22)	(9)	(21)	(9)	(22)	(9)	(15)	(10)
Net Income (Loss) in Accordance with U.S. GAAP	$ 115	$ (55)	$ 125	$ 1	$ 150	$ 55	$ 132	$ 62
Per Common Share:								
Net Income (Loss) (Canadian GAAP)	$ 0.92	$ (0.40)	$ 1.12	$ 0.01	$ 1.36	$ 0.40	$ 1.15	$ 0.45
Net Income (Loss) (U.S. GAAP)	$ 0.83	$ (0.40)	$ 1.02	$ 0.01	$ 1.26	$ 0.40	$ 1.10	$ 0.45
Dividends Declared[5][6]	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.075
Common Share Prices:								
The Toronto Stock Exchange								
High	$ 34.50	$ 19.45	$ 44.65	$ 23.85	$ 45.20	$ 30.75	$ 41.90	$ 32.00
Low	$ 26.40	$ 13.10	$ 32.00	$ 16.60	$ 35.75	$ 23.65	$ 33.30	$ 25.80
New York and American Stock Exchanges[7]								
High (U.S. $)	$ 23.69	$ 12.88	$ 30.00	$ 16.19	$ 29.88	$ 20.19	$ 27.56	$ 21.88
Low (U.S. $)	$ 18.19	$ 8.69	$ 22.00	$ 11.00	$ 24.56	$ 16.00	$ 23.06	$ 17.50

Notes:

(1) A gain of $18 million was recorded on the disposition of the Company's oil and gas properties in Ecuador during the second quarter of 2000. A gain of $22 million was recorded on the disposition of Canadian assets during the third quarter of 2000.

(2) A gain of $25 million was recorded on the disposition of Canadian resource properties during the first quarter of 1999.

(3) Plant turnarounds occurred in the first and fourth quarters in 2000. There was no turnaround in 1999.

(4) The fourth quarter of 2000 includes non-recurring charges of $16 million related to name change, lease termination and system conversion costs.

(5) In February 2001, the Board of Directors declared a regular quarterly dividend of $0.075 per common share, payable April 1, 2001, to shareholders of record on March 9, 2001.

(6) The Income Tax Act of Canada requires that the Company deduct a withholding tax from all dividends remitted to non-residents. In accordance with the Canada-U.S. Tax Treaty, the withholding tax is 15 per cent on dividends remitted by the Company to residents of the United States, except in the case of an affiliated company where the withholding tax is five per cent.

(7) Effective November 14, 2000, the Company's common shares commenced trading on the New York Stock Exchange and ceased trading on the American Stock Exchange.

(8) At December 31, 2000, there were 1,394 registered holders of common shares and 119,854,998 common shares outstanding.

Supplementary Financial Information
(unaudited)

Oil and Gas Producing Activities

The following oil and gas information is provided in accordance with the United States Statement of Financial Accounting Standards Number 69 "Disclosures about Oil and Gas Producing Activities".

A. Reserve Quantity Information

Reserves of oil include condensate and natural gas liquids. Conventional crude oil and natural gas reserve estimates are determined through analysis of geological and engineering data, which has demonstrated with reasonable certainty that they are recoverable from known oil and gas fields under economic and operating conditions at December 31 of each year. The calculation of reserves for synthetic crude oil for the Syncrude Joint Venture is based on Nexen's participating interest in the production permit.

The net proved reserves of crude oil and natural gas are determined by deducting the mineral owners' and/or governments' royalty share and are calculated using currently enacted royalty regulations.

The Syncrude net profits interest payment to the Province of Alberta is based on "deemed net profits", therefore, estimates of net reserves entail assumptions as to future crude oil prices and plant operating costs. Reserves data do not include the reserves contained in the oil sands other than those attributable to Nexen's share in the Syncrude Joint Venture.

Supplementary Financial Information
(unaudited)

A. Reserve Quantity Information (continued)

Reserves set forth are Nexen's net reserves, after royalties, and are derived from estimates prepared or audited by independent engineers. Oil reserves are in millions of barrels and natural gas reserves are in billions of cubic feet.

	Total			Yemen(1)	Canada		United States		North Sea	Australia	Other Countries(2)
	Oil	Gas	Synthetic Crude Oil	Oil	Oil	Gas	Oil	Gas	Gas	Oil	Oil
Proved Developed and Undeveloped Reserves:											
December 31, 1997	332	810	152	156	145	569	18	154	87	–	13
Revisions of Previous Estimates	73	100	23	55	8	90	2	11	(1)	5	3
Purchases of Reserves in Place(3)	4	48	–	–	3	21	1	27	–	–	–
Sales of Reserves in Place(4)	(10)	(278)	–	–	(10)	(204)	–	–	(74)	–	–
Extensions and Discoveries	31	89	–	15	15	78	1	11	–	–	–
Production	(61)	(131)	(5)	(38)	(17)	(84)	(4)	(35)	(12)	–	(2)
December 31, 1998	369	638	170	188	144	470	18	168	–	5	14
Revisions of Previous Estimates	37	37	24	29	4	27	2	10	–	3	(1)
Purchases of Reserves in Place	3	2	–	–	2	–	1	2	–	–	–
Sales of Reserves in Place	(2)	(59)	–	–	(2)	(59)	–	–	–	–	–
Extensions and Discoveries	44	81	–	27	16	67	1	14	–	–	–
Production	(60)	(85)	(6)	(40)	(14)	(50)	(3)	(35)	–	–	(3)
December 31, 1999	391	614	188	204	150	455	19	159	–	8	10
Revisions of Previous Estimates	43	39	–	37	6	18	1	21	–	(1)	–
Purchases of Reserves in Place	7	3	–	–	5	–	–	3	–	2	–
Sales of Reserves In Place	(5)	(1)	–	–	(1)	(1)	–	–	–	–	(4)
Extensions and Discoveries	29	101	19	5	22	86	2	15	–	–	–
Production	(67)	(83)	(4)	(41)	(16)	(49)	(4)	(34)	–	(4)	(2)
December 31, 2000	398	673	203	205	166	509	18	164	–	5	4
Proved Developed Reserves:											
December 31, 1998	279	597	143	135	116	432	17	165	–	–	11
December 31, 1999	305	535	171	153	117	395	17	140	–	8	10
December 31, 2000	300	613	183	154	120	463	17	150	–	5	4

Notes:

(1) Up to 40 per cent of the crude oil reserves in Yemen are reserved for the recovery of costs incurred or to be incurred by Nexen on behalf of Nexen and the Government of Yemen. The remaining reserves are shared between Nexen and the Government of Yemen based on the level of production with Nexen's interest ranging between 20 per cent and 33.3 per cent and with the Government of Yemen's interest varying between 66.7 per cent and 80 per cent. The interest taken by the Government of Yemen includes satisfaction of all income taxes payable in Yemen.

(2) Represents reserves in Nigeria and Ecuador.

(3) Purchases of reserves in place in 1998 consist of an exchange of properties in Canada and the acquisition of Eugene Island 18 in the Gulf of Mexico.

(4) Sales of reserves in place in 1998 consist of an exchange of properties in Canada and property dispositions in Canada and the North Sea.

Supplementary Financial Information
(unaudited)

B. Capitalized Costs

(millions)	Proved Properties	Unproved Properties	Accumulated Depreciation, Depletion and Amortization	Capitalized Costs
December 31, 2000				
Yemen	$ 1,544	$ 11	$ 1,314	$ 241
Canada	2,710	153	1,095	1,768
United States	1,154	88	723	519
Australia	151	–	90	61
Other Countries	184	61	126	119
Syncrude Joint Venture (Synthetic Crude Oil)	429	–	118	311
Total	$ 6,172	$ 313	$ 3,466	$ 3,019
December 31, 1999				
Yemen	$ 1,392	$ 13	$ 1,177	$ 228
Canada	2,345	168	871	1,642
United States	976	86	597	465
Australia	112	7	–	119
Other Countries	208	53	110	151
Syncrude Joint Venture (Synthetic Crude Oil)	364	46	125	285
Total	$ 5,397	$ 373	$ 2,880	$ 2,890
December 31, 1998				
Yemen	$ 1,404	$ 17	$ 1,153	$ 268
Canada	2,242	181	669	1,754
United States	984	93	531	546
Australia	15	7	–	22
Other Countries	200	64	74	190
Syncrude Joint Venture (Synthetic Crude Oil)	337	21	115	243
Total	$ 5,182	$ 383	$ 2,542	$ 3,023

Supplementary Financial Information
(unaudited)

C. Costs Incurred

(millions)	Total: Oil and Gas	Total: Syncrude Joint Venture	Oil and Gas: Yemen	Canada	United States	North Sea	Australia	Other Countries
Year Ended December 31, 2000								
Property Acquisition Costs								
Proved	$ 35	$ –	$ –	$ 28	$ 4	$ –	$ 3	$ –
Unproved	39	–	–	–	31	–	–	8
Exploration Costs	261	–	15	65	112	–	19	50
Development Costs	485	37	98	297	81	–	–	9
	$ 820	$ 37	$ 113	$ 390	$ 228	$ –	$ 22	$ 67
Year Ended December 31, 1999								
Property Acquisition Costs								
Proved	$ 8	$ –	$ –	$ 2	$ 6	$ –	$ –	$ –
Unproved	6	–	–	2	4	–	–	–
Exploration Costs	140	–	6	30	33	–	19	52
Development Costs	370	54	68	136	51	–	96	19
	$ 524	$ 54	$ 74	$ 170	$ 94	$ –	$ 115	$ 71
Year Ended December 31, 1998								
Property Acquisition Costs								
Proved	$ 56	$ –	$ –	$ 11	$ 45	$ –	$ –	$ –
Unproved	59	–	–	6	53	–	–	–
Exploration Costs	273	–	39	45	54	2	51	82
Development Costs	489	36	85	229	78	4	16	77
	$ 877	$ 36	$ 124	$ 291	$ 230	$ 6	$ 67	$ 159

Supplementary Financial Information
(unaudited)

D. Results of Operations for Producing Activities

	Total		Oil and Gas					
(millions)	Oil and Gas	Syncrude Joint Venture	Yemen	Canada	United States	North Sea	Australia	Other Countries
Year Ended December 31, 2000								
Net Sales	$ 2,077	$ 199	$ 752	$ 698	$ 382	$ –	$ 167	$ 78
Production Costs	297	98	58	135	55	–	27	22
Exploration Expense	173	–	14	40	60	–	23	36
Depreciation, Depletion and Amortization	588	12	90	233	139	–	86	40
Other Operating Expenses (Income)	(3)	–	(3)	(4)	5	–	1	(2)
	1,022	89	593	294	123	–	30	(18)
Income Tax Provision (Recovery)	404	29	219	129	50	–	11	(5)
Results of Operations	$ 618	$ 60	$ 374	$ 165	$ 73	$ –	$ 19	$ (13)
Year Ended December 31, 1999								
Net Sales	$ 1,157	$ 162	$ 499	$ 385	$ 203	$ –	$ –	$ 70
Production Costs	240	74	52	113	51	–	–	24
Exploration Expense	136	–	11	23	31	–	15	56
Depreciation, Depletion and Amortization	472	12	96	212	120	–	–	44
Other Operating Expenses (Income)	10	2	1	(7)	3	–	–	13
	299	74	339	44	(2)	–	(15)	(67)
Income Tax Provision (Recovery)	191	25	129	85	–	–	(5)	(18)
Results of Operations	$ 108	$ 49	$ 210	$ (41)	$ (2)	$ –	$ (10)	$ (49)
Year Ended December 31, 1998								
Net Sales	$ 1,034	$ 115	$ 399	$ 367	$ 183	$ 64	$ –	$ 21
Production Costs	280	75	49	151	49	21	–	10
Exploration Expense	187	–	22	36	24	1	51	53
Depreciation, Depletion and Amortization	656	13	175	277	112	38	–	54
Other Operating Expenses (Income)	(93)	–	(1)	2	(2)	(108)	–	16
	4	27	154	(99)	–	112	(51)	(112)
Income Tax Provision (Recovery)	54	9	63	33	–	10	(18)	(34)
Results of Operations	$ (50)	$ 18	$ 91	$ (132)	$ –	$ 102	$ (33)	$ (78)

Supplementary Financial Information
(unaudited)

E. Standardized Measure of Discounted Future Net Cash Flows and Changes Therein

For purposes of the following disclosures, estimates were made of quantities of proved reserves and the periods during which they are expected to be produced. Future cash flows were computed by applying year end prices to Nexen's share of estimated annual future production from proved conventional oil and gas reserves (excluding synthetic crude oil), net of royalties. Future development and production costs were computed by estimating costs, based on year end prices, to be incurred in producing and further developing the proved reserves. Future income taxes were computed by applying, generally, year end statutory tax rates, after application of existing deductions carried forward, tax credits and allowances, to the estimated pre-tax future net cash flows. The discount was computed by application of a 10 per cent discount factor. The calculations assume the continuation of existing economic, operating and contractual conditions. However, such arbitrary assumptions have not proven to be the case in the past. Other assumptions of equal validity could give rise to substantially different results.

Management believes that this information does not in any way reflect the current economic value of the oil and gas producing properties or the present value of estimated future cash flows since no economic value is attributed to probable and possible reserves, the use of a 10 per cent discount rate is arbitrary, and prices change constantly from year end levels.

(millions)	Total	Yemen	Canada	United States	Australia	Other Countries
December 31, 2000						
Future Cash Inflows	$ 15,173	$ 3,552	$ 8,113	$ 3,166	$ 220	$ 122
Future Production and Development Costs	3,574	741	2,103	550	112	68
Future Income Tax	3,783	897	2,093	760	18	15
Future Net Cash Flows	7,816	1,914	3,917	1,856	90	39
10% Discount Factor	2,825	507	1,835	474	4	5
Standardized Measure	$ 4,991	$ 1,407	$ 2,082	$ 1,382	$ 86	$ 34
December 31, 1999						
Future Cash Inflows	$ 11,026	$ 3,512	$ 5,686	$ 1,234	$ 289	$ 305
Future Production and Development Costs	2,956	580	1,769	445	65	97
Future Income Tax	2,441	954	1,319	123	14	31
Future Net Cash Flows	5,629	1,978	2,598	666	210	177
10% Discount Factor	1,828	543	1,090	148	12	35
Standardized Measure	$ 3,801	$ 1,435	$ 1,508	$ 518	$ 198	$ 142
December 31, 1998						
Future Cash Inflows	$ 5,690	$ 1,736	$ 2,886	$ 803	$ –	$ 265
Future Production and Development Costs	2,711	647	1,506	380	–	178
Future Income Tax	636	335	202	99	–	–
Future Net Cash Flows	2,343	754	1,178	324	–	87
10% Discount Factor	702	195	416	60	–	31
Standardized Measure	$ 1,641	$ 559	$ 762	$ 264	$ –	$ 56

Supplementary Financial Information
(unaudited)

Changes in the Standardized Measure of Discounted Future Net Cash Flows

The following are the principal sources of change in the standardized measure of discounted future net cash flows:

(millions)	2000	1999	1998
Beginning of Year	$ 3,801	$ 1,641	$ 2,282
Sales and Transfers of Oil and Gas Produced, Net of Production Costs	(1,425)	(607)	(836)
Changes in Estimated Future Development Costs	(141)	(180)	(46)
Net Changes in Prices and Production Costs Related to Future Production	1,255	2,122	(766)
Extensions, Discoveries and Improved Recovery, Less Related Costs	536	708	76
Development Costs Incurred during the Period which Reduced Future Development Costs	482	375	468
Revisions of Previous Quantity Estimates	670	673	301
Accretion of Discount	534	209	269
Purchases of Reserves in Place	119	42	56
Sales of Reserves in Place	(47)	(53)	(212)
Net Change in Income Taxes	(793)	(1,129)	49
End of Year	$ 4,991	$ 3,801	$ 1,641

Historical Review
(unaudited)

Five-Year Financial Review

(amounts in millions of dollars except share and per share data)	2000	1999	1998	1997	1996
Revenues					
Net Sales					
Oil and Gas					
Yemen	$ 752	$ 499	$ 399	$ 497	$ 522
Canada	698	385	367	449	163
United States	382	203	183	212	214
Australia	167	–	–	–	–
North Sea	–	–	64	69	60
Other Countries	78	70	21	24	21
Syncrude Joint Venture	199	162	115	140	127
	2,276	1,319	1,149	1,391	1,107
Chemicals	305	240	258	260	255
Corporate and Other Items	93	52	33	30	–
	2,674	1,611	1,440	1,681	1,362
Gain on Disposition of Assets	42	26	135	12	18
Marketing, Interest and Other Income	89	57	75	60	9
Total Revenues	$ 2,805	$ 1,694	$ 1,650	$ 1,753	$ 1,389
Net Income					
Operating Profit (Loss)					
Oil and Gas					
Yemen	$ 593	$ 339	$ 154	$ 279	$ 268
Canada	294	44	(99)	17	29
United States	123	(2)	–	60	56
Australia	30	(15)	(51)	(10)	–
North Sea	–	–	112	21	(5)
Other Countries	(18)	(67)	(112)	(79)	(55)
Marketing	23	7	13	4	–
Syncrude Joint Venture	89	74	27	49	39
	1,134	380	44	341	332
Chemicals	39	20	54	56	66
	1,173	400	98	397	398
Interest and Other Corporate Items	(164)	(126)	(192)	(119)	(79)
Provision for Income Taxes	(407)	(174)	(16)	(139)	(129)
Net Income (Loss)	602	100	(110)	139	190
Dividends on Preferred Securities, Net of Income Taxes	37	37	4	–	–
Net Income (Loss) Attributable to Common Shareholders	$ 565	$ 63	$ (114)	$ 139	$ 190
Net Income (Loss) per Common Share	$ 4.52	$ 0.46	$ (0.83)	$ 1.02	$ 1.40

Historical Review
(unaudited)

Five-Year Financial Review[7]

(amounts in millions of dollars except share and per share data)	2000	1999	1998	1997	1996
Cash Flow from Operations[1]					
Oil and Gas					
Yemen	$ 697	$ 447	$ 350	$ 455	$ 480
Canada	544	252	185	246	105
United States	321	147	135	176	170
Australia	138	–	–	–	–
North Sea	–	–	54	56	48
Other Countries	40	34	(4)	–	3
Marketing	36	19	25	12	–
Syncrude Joint Venture	102	86	36	62	51
	1,878	985	781	1,007	857
Chemicals	80	49	79	87	90
	1,958	1,034	860	1,094	947
Interest and Other Corporate Items	(147)	(111)	(175)	(107)	(62)
Income Taxes	(242)	(143)	(85)	(122)	(119)
	$ 1,569	$ 780	$ 600	$ 865	$ 766
Financial Position					
Working Capital	$ 179	$ –	$ (315)	$ 24	$ 130
Property, Plant and Equipment, Net	$ 3,582	$ 3,409	$ 3,459	$ 3,814	$ 1,955
Total Assets	$ 5,551	$ 4,105	$ 4,226	$ 4,547	$ 2,404
Net Debt[2]	$ 1,344	$ 1,308	$ 1,693	$ 2,143	$ 442
Long-Term Debt	$ 1,523	$ 1,308	$ 1,378	$ 2,167	$ 572
Shareholders' Equity	$ 1,460	$ 1,798	$ 1,459	$ 1,250	$ 1,123
Additions to Property, Plant and Equipment					
Oil and Gas[3]	$ 822	$ 527	$ 883	$ 852	$ 576
Syncrude Joint Venture	37	54	36	26	16
Chemicals[4]	31	18	17	18	36
Corporate and Other[3][5]	25	13	14	9	4
Total	915	612	950	905	632
Less: Exploration Expense	173	136	187	148	119
Capital Additions	$ 742	$ 476	$ 763	$ 757	$ 513
Shares and Dividends					
Common Shares Outstanding[6] (millions)	119.9	138.1	137.4	136.6	136.2
Number of Registered Common Shareholders	1,394	1,397	1,527	1,266	1,235
Dividends Declared per Common Share	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 0.30

Notes:

(1) Defined as the sum of Income Before Income Taxes, Charges and Credits to Income Not Involving Cash and Exploration Expense.

(2) Defined as Long-Term Debt less Working Capital.

(3) Excludes costs allocated to oil and gas property, plant and equipment acquired in the Wascana acquisition in 1997.

(4) Excludes the acquisition of the sodium chlorate and chlor-alkali facility in Brazil in 1999.

(5) Excludes the acquisition of Northridge Energy Marketing Ltd.

(6) Reflects the repurchase of 20 million common shares from Occidental Petroleum Corporation during 2000.

(7) See also Note 14 to the Consolidated Financial Statements.

Historical Review
(unaudited)

Five-Year Operating Review

Production Volumes[1]	2000	1999	1998	1997	1996
Crude Oil and					
Natural Gas Liquids (thousand barrels per day)					
Yemen[2]	111.9	107.5	104.7	98.6	92.1
Canada[3]	53.9	48.3	59.2	55.6	13.8
United States	11.1	10.3	12.1	12.7	13.4
Australia[2]	12.0	0.1	–	–	–
Other Countries	6.4	10.6	4.4	4.6	3.8
Synthetic Crude Oil[4]	14.7	16.1	15.2	15.0	14.5
	210.0	192.9	195.6	186.5	137.6
Natural Gas (million cubic feet per day)					
Canada[3]	161	161	271	255	129
United States	113	117	115	95	78
North Sea	–	–	34	38	37
	274	278	420	388	244
Chemicals (thousand short tons)					
Sodium Chlorate	462	404	399	383	349
Chlor-alkali	395	330	340	352	325

Notes:

(1) Production volumes are before deduction of royalties.

(2) Production volumes differ from sales volumes due to the timing of tanker loadings.

(3) 1997 reflects production after the acquisition of Wascana Energy Inc. on April 14, 1997, averaged over 365 days.

(4) In lieu of royalties, the Province of Alberta has elected to receive a net profits interest in the “deemed net profits” of the Syncrude Project.

Historical Review
(unaudited)

Average Sales Prices Received for Crude Oil and Natural Gas

	2000	1999	1998	1997	1996
Crude Oil, Condensate and Natural Gas Liquids (1) (dollars per barrel)					
West Texas Intermediate Average (U.S. $)	$ 30.21	$ 19.24	$ 14.43	$ 20.61	$ 22.02
Yemen (1)	40.53	26.36	16.92	25.60	27.42
Canada	33.49	20.53	12.29	18.25	24.44
United States	44.18	26.51	19.03	27.32	29.43
Australia	41.05	–	–	–	–
Other Countries (2)	40.12	23.30	15.23	16.10	16.16
Synthetic Crude Oil (1)	44.84	28.12	20.77	28.19	29.44
Natural Gas (1) (dollars per thousand cubic feet)					
Canada	$ 4.38	$ 2.46	$ 1.94	$ 1.81	$ 1.56
United States	6.90	3.45	3.25	3.73	4.04
North Sea (1)	–	–	5.72	5.02	4.61

Notes:

(1) The average sales price is before deducting royalties and certain other amounts deducted in determining net sales. These amounts represent the non-tax component of the Government of Yemen's "Deemed Interest" as described in Note 1 to the Consolidated Financial Statements, the net profits interest payment to the Province of Alberta pertaining to the sale of synthetic crude oil, and petroleum revenue tax in the United Kingdom.

(2) The average sales price represents the service fee per barrel received by the Company pursuant to a risk service contract.

Historical Review
(unaudited)

Oil and Gas Proved and Probable Reserves(1)(2)

(oil in millions of barrels, natural gas in billions of cubic feet)	Total Oil	Total Gas	Total Synthetic Crude Oil	Yemen Oil	Canada Oil	Canada Gas	United States Oil	United States Gas	Australia Oil	Other Countries Oil
Proved Reserves										
December 31, 1999	429	726	226	204	181	532	22	194	8	14
Revisions of Previous Estimates	44	57	–	37	7	31	1	26	(1)	–
Purchases of Reserves in Place	8	3	–	–	6	–	–	3	2	–
Sales of Reserves in Place	(7)	(1)	–	–	(1)	(1)	–	–	–	(6)
Extensions and Discoveries	35	121	22	5	28	102	2	19	–	–
Production	(72)	(101)	(6)	(41)	(20)	(59)	(4)	(42)	(4)	(3)
December 31, 2000	437	805	242	205	201	605	21	200	5	5
Probable Reserves										
December 31, 1999	117	149	138	38	58	127	2	22	1	18
Revisions of Previous Estimates	6	(27)	–	18	(11)	(17)	–	(10)	(1)	–
Purchases of Reserves in Place	6	7	–	–	5	–	–	7	1	–
Sales of Reserves in Place	(17)	(2)	–	–	(1)	(2)	–	–	–	(16)
Extensions and Discoveries	10	(14)	(9	2	5	(18)	1	4	–	2
Production	–	–	–	–	–	–	–	–	–	–
December 31, 2000	122	113	129	58	56	90	3	23	1	4
Proved and Probable Reserves										
December 31, 1999	546	875	364	242	239	659	24	216	9	32
Revisions of Previous Estimates	50	30	–	55	(4)	14	1	16	(2)	–
Purchases of Reserves in Place	14	10	–	–	11	–	–	10	3	–
Sales of Reserves in Place	(24)	(3)	–	–	(2)	(3)	–	–	–	(22)
Extensions and Discoveries	45	107	13	7	33	84	3	23	–	2
Production	(72)	(101)	(6)	(41)	(20)	(59)	(4)	(42)	(4)	(3)
December 31, 2000	559	918	371	263	257	695	24	223	6	9

Notes:

(1) Reserve quantities are Nexen's working interest share, before royalties, using forecast price assumptions. The crude oil and natural gas prices used in the determination of reserve quantities were based on a mix of independent consulting firms' price forecasts.

	West Texas Intermediate U.S. $/bbl @ Cushing, OK	Edmonton Par Cdn. $/bbl @ Edmonton, AB	U.S. Spot Gas U.S. $/mcf @ Henry Hub, LA	Canadian Spot Gas Cdn. $/mcf @ AECO AB
2001	25.00	36.52	4.25	5.83
2002	23.00	32.03	3.75	4.48
2003	21.32	29.59	3.50	3.80
2004	21.64	30.06	3.55	3.87
2005	21.96	30.53	3.61	3.95

Crude oil and natural gas prices are escalated by one and one-half per cent thereafter.

(2) Probable reserves are unrisked.

Charles W. Fischer

Principal Occupation and Other Directorships: Executive Vice President and Chief Operating Officer of the Company. Previously Senior Vice President, Exploration and Production, North America.

Positions and Offices with Nexen: Executive Vice President and Chief Operating Officer.

Dennis G. Flanagan

Principal Occupation and Other Directorships: Retired Oil Executive and Corporate Director. Previously Executive Chairman of ELAN Energy Inc. Director of NAL Royalty Trust, Maverick Tube Inc. and Aquapure Ventures Inc.

Positions and Offices with Nexen: Chairman of the Reserves Review Committee and Member of the Audit and Conduct Review, Compensation and Finance Committees.

David A. Hentschel

Principal Occupation and Other Directorships: Retired Chairman and Chief Executive Officer of Occidental Oil and Gas Corporation and former President and Chief Executive Officer of the Company.

Positions and Offices with Nexen: Chairman of the Audit and Conduct Review Committee and Member of the Compensation, Environment, Health and Safety and Reserves Review Committees.

Elected: 1985

Kevin J. Jenkins

Principal Occupation and Other Directorships: President and Chief Executive Officer and a director of The Westaim Corporation. Formerly President and Chief Executive Officer and a director of Canadian Airlines Corporation.

Positions and Offices with Nexen: Chairman of the Finance Committee and Member of the Audit and Conduct Review, Environment, Health and Safety and Reserves Review Committees.

Elected: 1997

Francis M. Saville, Q.C.

Principal Occupation and Other Directorships: Vice Chairman and Senior Partner of Fraser Milner Casgrain, Barristers and Solicitors. Director of Mullen Transportation Inc.

Positions and Offices with Nexen: Chairman of the Corporate Governance and Nominating Committee and Member of the Environment, Health and Safety, Finance and Reserves Review Committees.

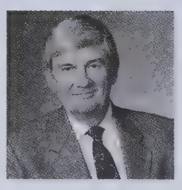
Elected: 1994

Richard M. Thomson

Principal Occupation and Other Directorships: Retired Chairman and Chief Executive Officer of The Toronto-Dominion Bank. Director of The Toronto-Dominion Bank, The Prudential Insurance Company of America, Inco Limited and The Thomson Corporation.

Positions and Offices with Nexen: Chairman of the Board and Member of the Audit and Conduct Review, Compensation, Finance and Corporate Governance and Nominating Committees.

Elected: 1998



John M. Willson

Principal Occupation and Other Directorships: Chairman of the World Gold Council, Retired Vice Chairman of Placer Dome Inc. Formerly President and Chief Executive Officer of Pegasus Gold Inc.

Positions and Offices with Nexen: Chairman of the Compensation Committee and Member of the Corporate Governance and Nominating, Environment, Health and Safety, Finance and Reserves Review Committees.

Elected: 1997

Gordon R. Wittman

Principal Occupation and Other Directorships: Formerly President, Chief Operating Officer and a director of DuPont Canada Inc.

Positions and Offices with Nexen: Chairman of the Environment, Health and Safety Committee and Member of the Audit and Conduct Review, Compensation and Corporate Governance and Nominating Committees.

Elected: 1995

Victor J. Zaleschuk

Principal Occupation and Other Directorships: President and Chief Executive Officer of the Company. Formerly Senior Vice President, Finance and Chief Financial Officer of the Company.

Positions and Offices with Nexen: President and Chief Executive Officer.

Elected: 1998

Officers

Richard M. Thomson
Chairman of the Board

Victor J. Zaleschuk
President and
Chief Executive Officer

Charles W. Fischer
Executive Vice President and
Chief Operating Officer

John B. McWilliams
Senior Vice President,
General Counsel and Secretary

Laurence Murphy
Senior Vice President,
International Oil and Gas

Douglas B. Otten
Senior Vice President,
United States Oil and Gas

Marvin F. Romanow
Senior Vice President, Finance
and Chief Financial Officer

Thomas A. Sugalski
Senior Vice President, Chemicals

Roger D. Thomas
Senior Vice President,
Canadian Oil and Gas

Nancy F. Foster
Vice President,
Human Resources and
Corporate Services

Gary H. Nieuwenburg
Vice President,
Corporate Planning and
Business Development

Kevin J. Reinhart
Treasurer

Una M. Power
Controller and Director,
Risk Management

Lynda J. Elliott
Assistant Secretary

Eric B. Miller
Assistant Secretary

Operating Entities

Chemicals

Nexen Chemicals Limited Partnership
Nexen Chemicals U.S.A.
Nexen Química Brasil Ltda.

Marketing

Nexen Marketing
Nexen Marketing U.S.A. Inc.
Nexen Marketing International Ltd.

Canada

Nexen Petroleum Canada
Wascana Energy Inc.

United States

Nexen Petroleum U.S.A. Inc.
Nexen Petroleum Offshore U.S.A. Inc.

International

Canadian Nexen Petroleum Yemen
Nexen Petroleum International Ltd.
Nexen Petroleum Australia Pty Limited
Nexen Petroleum Colombia Limited
Nexen Petroleum Indonesia Ltd.
Nexen Energy Services International Ltd.
Nexen Energy Holdings International Limited
Nexen Oilfield Services Nigeria Ltd.

Abbreviations

bbl – barrel
bbls/d – barrels of oil per day
bcf – billion cubic feet
boe – barrel of oil equivalent
boe/d – barrels of oil equivalent per day
F&D – finding and development
G&A – general and administrative
mbbls – thousand barrels
mmbbls – million barrels
mboe – thousand barrels of oil equivalent
mmboe – million barrels of oil equivalent
mcf – thousand cubic feet
mcf/d – thousand cubic feet per day
mmcf – million cubic feet
WTI – West Texas Intermediate

Conversions

Natural gas is converted at 6 mcf per equivalent barrel of oil.

Head Office

635 – 8th Avenue S.W.
Calgary, Alberta, Canada T2P 3Z1
(403) 234-6700
www.nexeninc.com

Common Share Transfer Agents and Registrars

CIBC Mellon Trust Company,
Calgary, Toronto, Montreal, Regina, Winnipeg,
Vancouver and Halifax.

ChaseMellon
Shareholder Services,
New York, NY

Listed – Symbol "NXY"

The Toronto Stock Exchange
New York Stock Exchange

Preferred Securities

9.75 per cent due 2047
LISTED: Symbol "NXYPr" New York Stock Exchange

9.375 per cent due 2048
LISTED: Symbol "NXYPrA" New York Stock Exchange

TRUSTEE: The Bank of New York, New York

Dividend Reinvestment Plan

A copy of the offering circular (and for United States residents, a prospectus) and authorization form may be obtained by calling CIBC Mellon Trust Company at 1-800-387-0825 or via the Internet at www.cibcmellon.ca

Auditors

Arthur Andersen LLP
Calgary, Alberta

Form 10-K

A copy of the 2000 Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission is available without charge, upon written request to the Secretary.

Corporate Governance

The Board of Directors of Nexen takes seriously its duties and responsibilities with respect to principles of good corporate governance. In this regard, Nexen supports and conducts its business in accordance with the guidelines adopted by The Toronto Stock Exchange. A report of our compliance with the guidelines may be found in the Proxy Statement and Information Circular.

Annual General Meeting

The Annual General Meeting of Shareholders will be held in the Crystal Ballroom at the Palliser Hotel in Calgary, Alberta, Canada on Wednesday, May 2, 2001 at 11:00 a.m.

Investor Relations Contact

Tim Jeffery
Telephone (403) 234-6984. Fax (403) 234-1086
tim_jeffery@nexeninc.com

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NEXEN INC. 635 – 8th Ave SW Calgary AB Canada T2P 3Z1
T 403 234.6700 **F** 403 263.8673 www.nexeninc.com